

## IMPORTANT NOTICE

You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum (the “offering memorandum”). You are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached offering memorandum.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES (THE “NOTES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OF AMERICA OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of Your Representation:** In order to be eligible to view the attached offering memorandum or make an investment decision with respect to the Bonds, investors must be either (i) a “qualified institutional buyer,” within the meaning of and in reliance on Rule 144A under the U.S. Securities Act or (ii) outside the United States in accordance with Regulation S under the U.S. Securities Act (together, “Eligible Investors”). By opening the e-mail or accessing the offering memorandum, you shall be deemed to have represented to the Government of Mongolia (the “Issuer”) and the joint bookrunners named therein (the “Initial Purchasers”), that (1) you and any customers you represent are Eligible Investors; (2) the electronic mail address that you gave the Issuer and to which this e-mail has been delivered are not located in such jurisdictions; and (3) you consent to delivery of the offering memorandum by electronic transmission.

You are reminded that the attached offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering memorandum to any other person. You will not transmit the attached offering memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Initial Purchasers. Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that this offering be made by a licensed broker or dealer, and any Initial Purchaser or an affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, this offering shall be deemed to be made by such Initial Purchaser or such affiliate on behalf of the Issuer in such jurisdiction.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Initial Purchasers, nor any of their respective affiliates, nor any directors, officers, employees or agents of any of the Initial Purchasers accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from any of the Initial Purchasers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



**THE GOVERNMENT OF MONGOLIA**  
**US\$500,000,000 3.500% Bonds Due 2027**  
**US\$500,000,000 4.450% Bonds Due 2031**

The US\$500,000,000 3.500% bonds due 2027 (the “2027 Bonds”) and US\$500,000,000 4.450% bonds due 2031 (the “2031 Bonds,” and, together with the 2027 Bonds, the “Bonds”) are being offered by the Government of Mongolia (the “Issuer”) in registered form in minimum denominations of US\$200,000 each and integral multiples of US\$1,000 in excess thereof. The Bonds will constitute the Issuer’s direct, unconditional, unsecured and unsubordinated general obligations and will at all times rank *pari passu* among themselves in all respects, without any preference of one over the other by reason of priority of date of issue or otherwise, and will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated External Indebtedness (as defined in “Description of the Bonds”). The full faith and credit of Mongolia will be pledged for the due and punctual payment of the principal of, premium (if any) on, and interest on, the Bonds.

The Issuer will pay interest on the outstanding principal amount of the Bonds semi-annually in arrears on January 7 and July 7 of each year, commencing January 7, 2022. The 2027 Bonds will mature on July 7, 2027. The 2031 Bonds will mature on July 7, 2031. The Bonds are not redeemable prior to maturity pursuant to the terms and conditions of the Bonds as described herein. Except as described herein, principal and interest payments on the Bonds will be made without deduction for or on account of withholding taxes imposed by the Issuer.

The Bonds contain provisions commonly known as “collective action clauses.” Under these provisions, which are described beginning on page 114 of this offering memorandum under “Description of the Bonds—Meeting, Amendments and Waivers—Collective Action,” modifications affecting the reserve matters listed in the Indenture, including modifications to payment and other important terms, may be made to a single series of debt securities issued under the Indenture (including the Bonds) with the consent of the holders of 75% of the aggregate principal amount outstanding of that series, and to two or more series of debt securities issued under the indenture either (x) with the consent of holders of 75% of the aggregate principal amount of the outstanding debt securities of all the series affected by the proposed modification (taken in aggregate) if the modification is uniformly applicable; or (y) with the consent of the holders of 66 $\frac{2}{3}$ % of the aggregate principal amount outstanding of all series of debt securities that would be affected and 50% in aggregate principal amount outstanding of each affected series of debt securities. For a more detailed description, see “Description of the Bonds—Meeting, Amendments and Waivers—Collective Action” beginning on page 114.

For a more detailed description of the Bonds, see “Description of the Bonds” beginning on page 109.

Investment in the Bonds involves risks. See “Risk Factors” beginning on page 10 of this offering memorandum (the “offering memorandum”).

The Bonds are expected to be assigned a rating of “B” by Standard & Poor’s Rating Services (“S&P”) and “B” by “Fitch Ratings” (“Fitch”). Such ratings of the Bonds do not constitute a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal at any time by S&P or Fitch. Such ratings should be evaluated independently of any other ratings of the other securities of the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Bonds are being offered and sold outside the United States in accordance with Regulation S of the U.S. Securities Act (“Regulation S”) and if in the United States only to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the U.S. Securities Act (“Rule 144A”). Prospective investors are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For certain restrictions on resales, see “Transfer Restrictions.”

Approval-in-principle has been received for the listing and quotation of the 2031 Bonds on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Application will be made for the listing and quotation of the 2027 Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Bonds are listed on the SGX-ST.

The Initial Purchasers (as defined herein) expect to deliver the Bonds to purchasers in book-entry form only through the facilities of The Depository Trust Company on or about July 7, 2021.

*Joint Lead Managers and Joint Bookrunners*  
*(in alphabetical order)*

**HSBC**

**J.P. Morgan**

**Morgan Stanley**

**Nomura**

*Development Finance Structuring Agent*

**J.P. Morgan**

The date of this offering memorandum is June 28, 2021.



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## ABOUT THIS OFFERING MEMORANDUM

In making an investment decision, you should only rely on the information contained in this offering memorandum. J.P. Morgan Securities plc, Morgan Stanley & Co., International plc, Nomura International (Hong Kong) Limited and The Hongkong and Shanghai Banking Corporation Limited will act as initial purchasers with respect to the offering of the Bonds (together, the “Initial Purchasers”). J.P. Morgan Securities plc will act as the Issuer’s development finance structuring agent (the “Development Finance Structuring Agent”). The Issuer has not, and the Initial Purchasers have not authorized anyone to provide you with different information. Neither the Issuer nor the Initial Purchasers are making an offer of the Bonds in any jurisdiction where the offer is not permitted.

No assurance is given by the Issuer and the Development Finance Structuring Agent that investing in the Bonds or the use of proceeds by the Issuer will satisfy, whether in whole or in part, any present or future investor expectations or requirements with respect to development impact financing, including related sustainability criteria or goals. See “*Development Impact*.” No independent verification as to the accuracy or completeness or lack thereof of the “*Development Impact*” section of this offering memorandum has been done by J.P. Morgan Securities plc in its role as the Development Finance Structuring Agent. The information contained in the section “*Development Impact*” of this offering memorandum (a) is not a substitute for an investor’s independent evaluation and analysis and (b) should not be considered as a recommendation by the Development Finance Structuring Agent that any transactions or related projects described in the “*Development Impact*” section of the offering memorandum achieve any particular development finance criteria or requirement to which it may be subject. The “*Development Impact*” section of this offering memorandum has been prepared, in part, based on certain forward-looking statements and projections provided by the Government. Any such statements and projections reflect various estimates and assumptions by the Government concerning anticipated results. No representations or warranties are made by the Development Finance Structuring Agent as to the accuracy of any such statements or projections. Whether or not any such forward looking statements or projections are in fact achieved will depend upon future events some of which may not be within the control of the Government. See “—*Forward-Looking Statements*.” Accordingly, actual results may vary from the projected results and such variations may be material. No fiduciary duties are owed to any party by the Development Finance Structuring Agent.

The Issuer, having made all reasonable inquiries, confirms that as of the date on the front cover of this offering memorandum, the information contained in this offering memorandum with regards to Mongolia is true and accurate in all material respects, that the opinions and intentions the Issuer expresses in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Issuer accepts responsibility for the offering memorandum accordingly.

**This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.**

## NOTICE TO INVESTORS

**In making an investment decision, you must rely on your own examination of the Issuer and the terms of this offering, including the merits and risks involved. The Bonds have not been approved or recommended by the U.S. Securities and Exchange Commission (“SEC”) or any state or foreign securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.**

**The Bonds may not be transferred or resold except as permitted under the U.S. Securities Act and related regulations and applicable state securities laws. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements set forth in this offering memorandum under “Notice to Investors.”**

**This offering memorandum may only be used for the purpose for which it has been published. Neither the Initial Purchasers, Deutsche Bank Trust Company Americas as trustee (the “Trustee”), registrar (the “Registrar”), paying agent (the “Paying Agent”) and transfer agent (the “Transfer Agent” and together with the Trustee, the Registrar and the Paying Agent, the “Agents”), nor any of their agents is making any representation, undertaking or warranty as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Neither the Initial Purchasers, the Trustee, the Agents, nor any of their agents has independently verified any of such information and assumes no responsibility for the accuracy or completeness of the information contained in this offering memorandum.**

This offering memorandum has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the Bonds, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the Bonds under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither the Issuer nor the Initial Purchasers or their agents have any responsibility therefor. See “*Transfer Restrictions*” for information concerning some of the transfer restrictions applicable to the Bonds.

You acknowledge and agree that:

- the Bonds have not been and will not be registered under the U.S. Securities Act or any country’s or state’s securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under “Transfer Restrictions”;
- you have not relied on the Initial Purchasers, the Trustee, the Agents or their agents or any person affiliated with the Initial Purchasers, the Trustee, the Agents or their agents in connection with your investigation of the accuracy of the information in this offering memorandum or your investment decision;
- the Initial Purchasers, the Trustee, and the Agents make no representation, undertaking or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers, the Trustee or the Agents;
- no person has been authorized to give any information or to make any representation concerning the Issuer or the Bonds other than those in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Initial Purchasers, the Trustee, the Agents or their agents;
- if you are purchasing the Bonds pursuant to Rule 144A, you are purchasing the Bonds for your own account with respect to which you exercise sole investment discretion and you are a qualified institutional buyer (as defined in Rule 144A) or you are purchasing the Bonds for the account of a qualified institutional buyer in compliance with Rule 144A; and

- if you are outside the United States of America and purchasing the Bonds through an offshore transaction in reliance on Regulation S, you are not purchasing the Bonds with a view to distribution thereof in the United States of America.

See “*Risk Factors*” for a description of certain factors relating to an investment in the Bonds. None of the Issuer, the Initial Purchasers, or any of their respective representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds.

The distribution of this offering memorandum and the offering of the Bonds (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons who come into possession of this offering memorandum are required by the Issuer, the Trustee, the Agents and the Initial Purchasers to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Bonds (or beneficial interests therein) in any jurisdiction in which such offer or solicitation is unlawful. See “*Transfer Restrictions*.”

## CERTAIN DEFINED TERMS AND CONVENTIONS

Unless the context otherwise requires, all references in this offering memorandum to:

- the “Issuer” or the “Government” are to the government of Mongolia;
- “estimated reserves” are to reserves for which quantity and grade and/or quality are computed from information similarly used for registered reserves, but the sites for inspection, sampling and measurement are not as adequate as registered or probable reserves;
- “MW” are to megawatts;
- “SDR” are to Special Drawing Rights of the International Monetary Fund; and
- “N/A” signifies that the relevant data is not available.

Unless the context otherwise requires, references to a particular year are to the year ended December 31 of such year.

All references in this document to “MNT” and “Tugriks” refer to Tugriks, the lawful currency of Mongolia (which is also referred to as “Togrog” in some contexts); “U.S. dollars”, “\$” and “US\$” refer to United States dollars, the lawful currency of the United States of America; “S\$” refers to Singapore dollars, the lawful currency of Singapore; “£” refer to pounds sterling, the lawful currency of the United Kingdom; “RMB” and “Renminbi” are to Renminbi, the lawful currency of the People’s Republic of China (“PRC”); “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union (“EU”), as amended; and “JPY” or “¥” refers to Japanese Yen, the lawful currency of Japan.

For convenience only, certain Tugrik amounts in this offering memorandum have been translated into U.S. dollars. Unless otherwise specified, such conversions were made based on the closing exchange rate between Tugriks and U.S. dollars as of December 31, 2020, as published by the Bank of Mongolia, of MNT2,849.9 to US\$1.00. Other Tugrik amounts in this offering memorandum were translated into U.S. dollars have been converted at the applicable rates specified. No representation is made that the Tugrik or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Tugriks, as the case may be, at any particular rate, or at all. The closing exchange rate published by the Bank of Mongolia as of June 15, 2021 was MNT2,849.0 to US\$1.00. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Unless stated otherwise, all numbers in this offering memorandum expressed as percentages of gross domestic product (“GDP”) refer to nominal GDP and all growth rates of GDP are based on real GDP. In certain tables, “N/A” has been used to indicate that the relevant data is not available; in some cases, this is because certain data is not available for any period other than a full year.

## STATISTICAL AND OTHER DATA

All economic data and figures with respect to Mongolia were derived from information compiled and made available by the Bank of Mongolia, the National Statistical Office of Mongolia or other public sources. None of the Issuer, the Trustee, the Agents or any of the Initial Purchasers has verified such information with independent sources or makes any representation as to the accuracy or completeness of such information. While the Issuer has taken reasonable actions to ensure that such information has been extracted accurately and in its proper context, the Issuer has not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon therein.

Certain statistical or financial information included in this offering memorandum may differ from previously published information for a number of reasons, including ongoing statistical revisions and maintenance of its economic data. Statistical and financial information provided in this offering memorandum may also be subsequently revised in accordance with the Issuer's ongoing statistical revisions and maintenance of its economic data, and that revised data will not be distributed by the Issuer to any holder of the Bonds. Also, certain monetary amounts included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, all statistical data and figures as of and for any date or period in 2021 are provisional figures based on preliminary data and are subject to review and adjustment.

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this offering memorandum constitute "forward-looking statements," including statements regarding the Issuer's economy, fiscal condition, debt or prospects. The words "believe," "expect," "anticipate," "estimate," "project," "may," "will," "aim," "will likely result," "will continue," "intend," "plan," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. These statements are based on the Issuer's current plans, objectives, assumptions, estimates, and projections. Forward-looking statements involve inherent risks. There are many factors that can affect the future performance of the Issuer. These factors include, but are not limited to, external factors, such as:

- interest rates in financial markets outside Mongolia;
- the impact of changes in the credit rating of Mongolia;
- the impact of changes in the international prices of commodities;
- economic conditions in Mongolia's major export markets;
- the decisions of international financial institutions, such as the International Monetary Fund ("IMF"), Asian Development Bank ("ADB"), the Asian Infrastructure Investment Bank ("AIIB") and World Bank, as well as other potential lenders, regarding the terms of their financial assistance to Mongolia;
- acts of war; and
- the general state of the global economy, including the impact of COVID-19 globally;

as well as internal factors, such as:

- general economic and business conditions in Mongolia;
- impact on the Mongolian economy and government finances of the measures taken to prevent the spread of COVID-19;
- changes in Government policies and regulations;
- present and future exchange rates of the Tugrik, the national currency of Mongolia;
- foreign currency reserves;

- the level of domestic debt;
- domestic inflation;
- the ability of Mongolia to implement important economic and structural reforms;
- the levels of foreign direct and portfolio investment;
- delays in the development of mining and infrastructure assets;
- pending and potential future disputes with investment partners relating to important mines;
- extreme climatic events affecting Mongolia;
- the levels of domestic interest rates; and
- the social and political situation.

All forward-looking statements and risk factors included in this offering memorandum are made as of the date on the front cover of this offering memorandum, based on information available to the Issuer as of such date, and the Issuer assumes no obligation to update any forward-looking statement or risk factor. The Issuer cautions that these and other factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

#### **ENFORCEABILITY OF FOREIGN JUDGMENTS IN MONGOLIA**

The Issuer is the Government of Mongolia, a sovereign nation. As a result, it may be difficult for investors (i) to effect service of process, including judgments, on the Issuer outside of Mongolia, (ii) to enforce, against the Issuer, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions, (iii) to enforce a foreign arbitral award against the Issuer or (iv) to enforce, against the Issuer, in Mongolian courts, judgments obtained in jurisdictions other than Mongolia, including judgments obtained in connection with the Bonds and the indenture to be dated on or about the issue date of the Bonds (“Indenture”) in any federal, state or appellate court in the State of New York.

The Bonds and the Indenture are governed by New York law and the Issuer has agreed in the Indenture that disputes arising thereunder or in respect of the Bonds are subject to arbitration before the Singapore International Arbitration Center. Mongolian courts will not enforce any judgment obtained in a court established in a country other than Mongolia unless, among other things, there is in effect a treaty with such country and Mongolia providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Mongolia and the United States of America. However, Mongolia and Singapore are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the “New York Convention”) and, accordingly, an arbitration award obtained in a state which is party to the New York Convention, such as Singapore, should be recognized and enforceable in Mongolia provided the conditions to enforcement set out in the New York Convention, and the Law of Mongolia on Arbitration of 2017 are met.

In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Tugriks, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia or, in the case of an arbitration award, enforceable in Mongolia under the New York Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Tugriks and order enforcement of the same in Mongolia in Tugriks.

## **DATA DISSEMINATION**

The Issuer is a subscriber to the IMF's General Data Dissemination Standard ("GDDS"), which is designed to improve the timeliness and quality of information of subscribing member countries. The GDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released. The summary methodology of Mongolia's metadata is provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The Internet website for Mongolia's metadata is located on the IMF's website at <http://dsbb.imf.org/Pages/GDDS/CtyCtgList.aspx?ctycode=MNG>. The website and any information contained on it are not part of this offering memorandum.

### **Exchange Controls**

Under the Currency Settlement Law of 1994, Mongolian commercial banks require approval from the Bank of Mongolia in order to undertake transactions in amounts that may affect the exchange rate of the Tugrik. As of the date of this offering memorandum, there are no other restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls. Foreign currency is generally freely transferable within or from Mongolia. However, foreign exchange policy is under the supervision of the Ministry of Finance and the Bank of Mongolia and is subject to modification.

## SUMMARY

*The following is a summary of certain information contained elsewhere in this offering memorandum. Reference is made to, and this information is qualified in its entirety by, the more detailed information contained elsewhere in this offering memorandum.*

Over the past three decades, Mongolia has transformed itself from a socialist country with a planned economy into a multi-party democracy with one of the world's fastest-growing economies. From 2010 through 2020, Mongolia experienced average real GDP growth of 7.1% per annum. Located between Russia (to its north) and China (to its south), Mongolia possesses vast, largely untapped mineral assets, which have only begun to be developed.

### Selected Key Economic Indicators

The following table sets forth Mongolia's selected key economic indicators as of and for the specified dates and periods:

Key Indicators	As of and for the year ended December 31,					As of and for the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)(2)</sup>
Nominal GDP (MNT billions) .....	23,942.9	27,876.3	32,411.2	37,280.8	36,958.6	7,525.5	9,219.3
Nominal GDP (US\$ millions) <sup>(3)</sup> .....	11,159.4	11,425.8	13,137.6	13,996.7	12,968.4	2,709.2	3,235.1
Real GDP (MNT billions) <sup>(4)</sup> .....	16,035.9	16,891.8	18,115.9	19,050.5	18,034.1	3,154.6	3,651.4
Real GDP (US\$ millions) <sup>(3)(4)</sup> .....	7,474.1	6,923.5	7,343.1	7,152.3	6,327.9	1,135.7	1,281.3
Real GDP growth .....	1.2	5.3	7.2	5.2	(5.3)	(10.7)	15.7
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> .....	7,910.0	8,999.1	10,259.8	11,566.5	11,459.5	N/A	N/A
Nominal GDP per capita (US\$ <sup>(3)(5)</sup> ) .....	3,686.7	3,688.5	4,158.7	4,385.4	4,167.0	N/A	N/A
Year-on-year inflation .....	1.1	6.4	8.1	5.2	2.3	6.4	2.5
Exports (US\$ millions) <sup>(3)</sup> .....	4,916.3	6,200.6	7,011.8	7,619.8	7,576.3	1,035.8	2,000.4
Imports (US\$ millions) <sup>(3)</sup> .....	3,358.1	4,335.4	5,875.0	6,127.4	5,293.9	1,161.6	1,523.7
Balance of payments (US\$ millions) <sup>(3)</sup> .....	(18.2)	1,459.9	(141.7)	452.9	786.9	(350.2)	170.4
Unemployment rate (%) .....	10.0	8.8	7.8	10.0	7.6	6.6	8.8
Gross external debt (US\$ millions) <sup>(3)(6)</sup> .....	24,624.5	27,492.7	28,714.9	30,702.3	32,361.8	30,517.4	32,487.1
Gross foreign exchange reserves (US\$ millions) <sup>(3)</sup> .....	1,296.3	3,008.1	3,541.6	4,348.6	4,534.2	4,094.2	4,774.6
Gross foreign reserves import cover (months) .....	4.9	8.0	7.6	9.1	10.7	9.9	9.7
Population (in thousands) .....	3,026.9	3,097.7	3,159.0	3,191.7	3,353.2	N/A	N/A

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia.

- (1) Provisional figures subject to further adjustments.
- (2) Preliminary figures as of March 31, 2021 unless otherwise indicated.
- (3) The following exchange average rates were applied: 2016 – MNT2,145.5 = US\$1.00, 2017 – MNT2,439.8 = US\$1.00, 2018 – MNT2,467.1 = US\$1.00, 2019 – MNT2,663.5 = US\$1.00, 2020 – MNT2,849.9 = US\$1.00, March 31, 2021 – MNT2,849.8 = US\$1.00.
- (4) Real GDP calculated at 2010 constant prices.
- (5) Nominal GDP per capita calculated at current prices.
- (6) "Gross external debt" includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

### Recent Developments

#### *Worldwide Economic and Financial Difficulties*

In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the ongoing outbreak of the COVID-19 pandemic caused by a new strain of coronavirus, as further described below;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- increased uncertainties resulting from the United Kingdom’s exit from the European Union;
- financial and social difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;
- the slowdown of economic growth in China as compared with its previous extended period of very high growth;
- interest rate fluctuations as well as quantitative easing policies and changes in policy rates by the U.S. Federal Reserve and other central banks;
- political and social instability in various countries in the Middle East, including Iraq, Syria and Yemen; and
- fluctuations in coal, copper and other commodity prices.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which was first reported to have been transmitted to humans in late 2019 and was declared a “pandemic” by the World Health Organization (“WHO”) in March 2020, has spread globally over the course of 2020 to date and has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. In addition, there has been significant volatility in global financial markets due to the COVID-19 pandemic in recent months. Moreover, the value of the Tugrik relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely in 2020, and the value of the Tugrik has generally declined. A depreciation of the Tugrik generally increases the cost of imported goods and services and the required amount of Tugrik-denominated revenue for Mongolian borrowers, including the Government, to service foreign currency-denominated debt.

Mongolia declared a state of emergency in response to the outbreak of COVID-19 on January 17, 2020, and as of June 16, 2021 the country had conducted 3,565,805 COVID-19 tests. A large portion of the testing was part of the “One Family-One Test” city-wide testing effort, which was carried out from February 14, 2021 to February 19, 2021 during Ulaanbaatar’s third strict lockdown. The measures adopted by Mongolia to control the spread of COVID-19 have been relatively effective, with 83,128 confirmed cases (of which 58,649 people have recovered) as of June 16, 2021, which have resulted in 389 deaths. However, the economic effects of the efforts to contain the disease, both in Mongolia and abroad, have had a substantial adverse effect on the Mongolian economy. Mongolia’s economic growth has been adversely affected, with GDP contracting by 5.3% in 2020, compared to growth of 5.2% in the preceding year. The Government has implemented a number of measures to contain the spread of COVID-19, including a suspension of international travel in and out of the country (other than returning Mongolian citizens), the implementation of strict self-isolation and quarantine measures for those who may be infected, and the temporary closure of school facilities and various other establishments until the possibility of further contamination has subsided sufficiently. In addition, the Government has implemented a number of measures, including the following, in an effort to mitigate the adverse impact of the COVID-19 pandemic on the Mongolian economy:

- lowering the Bank of Mongolia’s policy rate through a series of adjustments from 11.0% at the beginning of 2020 to 6.0% in November 2020, and the lowering of the reserve requirements on banks’ liabilities by two percentage points to 8.5% on March 11, 2020;

- an economic stimulus package of approximately US\$1.8 billion adopted in 2020, including US\$64.8 million for health spending; US\$612.2 million to support individuals and businesses, and US\$1.13 billion in economic stimulus, including budgetary support of US\$407.1 million and US\$720.0 million to fund projects in food processing, manufacturing, agriculture and infrastructure;
- changes in fiscal priorities to prioritize: health-sector financing; salaries, pensions and welfare benefits; and electricity, heating and maintenance. The Government has also suspended funding for foreign and domestic travel, conference costs, major repairs and renovations, and other costs that can be deferred or suspended;
- debt relief in the form of extensions of mortgage loan repayment schedules by six months and consumer loan repayment schedules by 12 months; suspensions of late payment penalties for missed loan repayments, and suspension of recording of missed loan repayments in the Bank of Mongolia's repayments database; provision of interest subsidies for "rent to own" mortgage loans to be offered to public officials and public service officials who are working in high-risk conditions; and
- exemption from social insurance payments by employers and employees, with the Government subsidizing such payments.

In response to the COVID-19 pandemic, the Government has adopted a comprehensive stimulus plan estimated at MNT5.8 trillion (US\$2.0 billion). This plan includes various programs to provide relief to households, support businesses through tax exemptions and discounts, and the procurement of vaccines and medical equipment. Pursuant to this stimulus plan, approximately MNT2.8 trillion was funded and disbursed in 2020, while the timing and disbursement of the remaining MNT3.0 trillion is subject to change taking into consideration various factors, including budgetary restrictions, approvals and funding.

Mongolia has implemented vaccinations as part of its COVID-19 control measures with significant success, and, accordingly, the Government has eased certain of its other control measures such as, border control and travel restrictions. Mongolia's first COVID-19 vaccines arrived on February 23, 2021, and as of June 15, 2021 4,779,892, slightly more than the initially targeted 4,300,000 vaccines, had arrived. An intensive vaccination campaign was launched in March 2021, with the goal of vaccinating approximately 16,000 - 20,000 people per day at 85 different locations. As of June 15, 2021, 1,897,995 people (91.8% of the targeted population, which includes healthcare workers and frontline workers) had received their first dose and 1,657,793 people (80.7% of the targeted population) had received their second dose. Mongolia's targeted population for vaccination refers to individuals above 18 years old, and the Government expects to start vaccinating children ages 12-18 years old in late June this year.

The Government eased Ulaanbaatar's strict lockdown on May 8, 2021. Staff from the General Agency for Specialized Inspection are working to monitor the implementation of COVID-19 safety measures as less stringent restrictions are in place. Based on the current COVID-19 situation, the National Emergency Commission has announced that going forward it is unlikely that widespread lockdowns will be imposed, and it is instead more likely that partial lockdowns will be imposed as necessary.

The Government has also implemented various COVID-19 measures, including increased vaccinations in province, district, and soum areas, partial lockdowns outside Ulaanbaatar and tightened COVID-19 safety measures for industries that provide face-to-face services to customers such as restaurants, sport facilities and recreational lodges. The Government is also organizing the national "Naadam" public holiday through online means to prevent mass gatherings that could increase COVID-19 transmissions.

Mongolia received over US\$541.8 million in funding from the IMF, the World Bank, the ADB, the AIIB and other international lenders to finance a significant portion of its response to COVID-19.

Following the Government's implementation of COVID-19 mitigation measures and economic stimulus policies, Mongolia's economic performance has shown signs of recovery.

In 2020, Mongolia recorded imports of US\$5.3 billion and exports of US\$7.6 billion resulting in a trade balance surplus of US\$2.3 billion. However, exports were down by 0.6% in 2020 as compared to the prior year and the Government's fiscal revenues were down by 13.4% in 2020 compared to the previous year.

Coal exports have rebounded significantly from a low point in March 2020, with export shipments peaking at 1,734 trucks per day in September 2020, which surpassed pre-COVID-19 volumes. The Sukhait and Shivee Khuren border crossing checkpoints with China were designated as "Green Zones," as COVID-19 testing was implemented for every coal truck driver at these strategic crossings.

Mongolia's economic outlook in 2021 and for the foreseeable future remains uncertain as a result of, among others, (i) uncertainty regarding the scope and duration of the COVID-19 outbreak and its lasting social, political and economic effects, which may last for a significant period of time, and the fiscal and monetary policies being implemented by the Government and regulatory authorities to alleviate these effects by increasing liquidity and supporting incomes, (ii) adverse conditions in the Mongolian and global economies and financial markets due to the COVID-19 pandemic and (iii) factors such as fluctuations in coal, copper and other commodity prices and interest and exchange rates, higher unemployment, and lower consumer confidence due to the impact of the COVID-19 pandemic. See "*Risk Factors—Risks Relating to Mongolia—Public crisis and pandemics/epidemics; such as the recent outbreak of the COVID-19 virus may materially adversely effect Mongolia's economy.*"

#### ***IMF Financial Assistance Program***

On May 24, 2017, the Government finalized the terms of a three-year financial assistance program with the IMF, which included a three-year extended arrangement under an IMF extended fund facility program (the "EFF program"), in a total amount of SDR 314.5 million (approximately US\$434.3 million). The EFF program was agreed as part of a broader financing package of approximately US\$5.5 billion supported by Japan, Korea, China, the World Bank and the ADB. The Government requested the IMF financial assistance package in September 2016 in response to a difficult near-term financial position, including balance of payment, and exchange rate and foreign reserve pressures. The IMF program, including the EFF program, was intended to (i) discipline financial policy, (ii) improve central bank independence, (iii) strengthen the financial sector, (iv) foster economic diversification and inclusive growth, and (v) protect the most vulnerable in society. The IMF staff has stated that Mongolia made major progress in strengthening the resilience of its economy, including by public debt reduction and reserve accumulation, under the program, and that the policy buffers built during the program strengthened its ability to take emergency actions to combat the COVID-19 pandemic. The IMF program concluded on May 23, 2020; see "*The Mongolia Economy—Economic History—Mongolia's IMF Program 2017-2020.*"

#### ***New Prime Minister and New President***

On January 21, 2021, then-Prime Minister Khurelsukh Ukhnaa submitted his resignation to the Parliament of Mongolia. Following his resignation, on January 27, 2021, Parliament elected L. Oyun-Erdene as the next Prime Minister, with 87.9% of members voting in favor. On January 29, 2021, Parliament approved the new cabinet proposed by Prime Minister L. Oyun-Erdene, which included eight new appointments and eight ministers carrying over from the previous administration.

Mongolia held its presidential elections on June 9, 2021. According to the final results announced by the General Election Commission of Mongolia on June 11, 2021, a candidate of the Mongolian People's Party (the "MPP"), Khurelsukh Ukhnaa, won the elections with 67.8% of the vote. Khurelsukh Ukhnaa is scheduled to begin serving his six-year presidential term on June 25, 2021.

#### ***Vision-2050***

In 2020 Mongolia adopted “Vision-2050,” its long-term development policy. Under this policy framework, Mongolia will implement projects and plans across the six leading economic sectors of mining, agriculture, information and technology creative industries, energy, transportation and logistics, and tourism. Vision-2050 also includes plans and projects to improve basic social services. The macroeconomic impact of plans and projects under the Vision-2050 framework are evaluated across four metrics: contribution to GDP, net effect on balance of payments, net impact on the Government’s budget balance, and impact on people and employment.

***Removal of Mongolia from FATF and European Commission “Grey” Lists***

On October 23, 2020, the Financial Action Task Force (the “FATF”), an inter-governmental body that monitors global money laundering and terrorist financing, removed Mongolia from its list of jurisdictions it identifies as having deficiencies in anti-money laundering and combating financing of terrorism (“AML/CFT”). FATF had placed Mongolia on this list in October 2019. The Government, working together with private sector institutions and professional associations, was able to achieve this reversal within one year, despite the challenges of the COVID-19 pandemic. Following the FATF action, on January 18, 2021, the European Commission also removed Mongolia from its list of high-risk third countries with strategic AML/CFT deficiencies.

## SUMMARY OF THE OFFERING

*The following is a brief summary of certain terms of the Offering contained elsewhere in this offering memorandum. You should read the entire offering memorandum carefully.*

Issuer.....	The Government of Mongolia.
Bonds.....	The US\$500,000,000 3.500% Bonds due 2027 (the “2027 Bonds”) and the US\$500,000,000 4.450% Bonds due 2031 (the “2031 Bonds,” and, together with the 2027 Bonds, the “Bonds”). The Bonds are being issued under an Indenture to be dated on or about October 7, 2020 (the “Indenture”).
Issue Price.....	98.668% of the principal amount of the 2027 Bonds. 98.023% of the principal amount of the 2031 Bonds.
Maturity.....	The 2027 Bonds: July 7, 2027. The 2031 Bonds: July 7, 2031.
Interest.....	The 2027 Bonds will bear interest from and including July 7, 2021 at a rate of 3.500% per annum. Interest will be paid on January 7 and July 7 of each year, commencing on January 7, 2022. The 2031 Bonds will bear interest from and including July 7, 2021 at a rate of 4.450% per annum. Interest will be paid on January 7 and July 7 of each year, commencing on January 7, 2022.
Additional Amounts.....	The Issuer will make all payments on the Bonds without withholding or deducting any present or future Taxes (as defined herein), imposed or levied by or on behalf of any Tax Jurisdiction (as defined herein) unless required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the holders, subject to certain exceptions, such Additional Amounts (as defined herein) as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction. The Issuer will not, however, pay any such Additional Amounts if the holder or beneficial owner is liable for Taxes imposed by any Tax Jurisdiction under certain circumstances. See “ <i>Description of the Bonds—Additional Amounts.</i> ”

Further Issues.....	The Issuer may, from time to time, without the consent of holders of the debt securities of a series, create and issue additional debt securities having the same terms and conditions as the debt securities of such series in all respects, except for issue date, issue price and the first payment on the debt securities; provided, however, that any additional debt securities subsequently issued shall be issued, for U.S. federal income tax purposes, either (a) as part of the “same issue” as the debt securities, (b) in a “qualified reopening” of the debt securities; or (c) with no greater amount of original issue discount than the previously outstanding debt securities as of the date of the issue of such additional debt securities, unless such additional debt securities have a separate CUSIP, ISIN or other identifying number from the previously outstanding debt securities. Such additional debt securities will be consolidated with and will form a single series with the previously outstanding debt securities. See “ <i>Description of the Bonds—Further Issues.</i> ”
Form and Settlement.....	The Bonds to be delivered to investors will be issued in global form and registered in the name of DTC or its nominee or custodian. See “ <i>Description of the Bonds—Global Bonds.</i> ”
Denominations.....	The Issuer will issue the Bonds only in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.
Status of the Bonds .....	The Bonds will constitute direct, unconditional, unsubordinated and unsecured general obligations of the Issuer. The Bonds will at all times rank <i>pari passu</i> among themselves in all respects without any preference of one over the other by reason of priority of date of issue or otherwise. The Bonds will at all times rank at least equally with all other present and future unsecured and unsubordinated External Indebtedness (as defined herein) of the Issuer. The full faith and credit of Mongolia will be pledged for the due and punctual payment of the principal of, and interest on, the Bonds, provided, however, that the Issuer shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other External Indebtedness (as defined herein) and, in particular, shall have no obligation to pay other External Indebtedness (as defined herein) at the same time or as a condition of paying sums due on the Bonds and vice versa. See “ <i>Description of the Bonds—General.</i> ”

Negative Pledge..... With certain exceptions, so long as any Bonds remain outstanding, the Issuer shall not create, incur, assume or permit to subsist any Lien (as defined herein) upon the whole or any part of its present or future assets or revenues to secure (1) any Public External Indebtedness (as defined herein) of the Issuer; (2) any Guarantees (as defined herein) in respect of Public External Indebtedness; or (3) the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Bonds equally and ratably therewith or providing such other arrangement (whether or not comprising a Lien) as shall be approved by at least 75.0% of the aggregate principal amount of outstanding Bonds which are represented at a meeting of Bondholders (as defined herein) duly convened in accordance with the Indenture (as defined herein) or a resolution in writing signed or confirmed in writing on behalf of the holders of at least 75.0% of the aggregate principal amount of the outstanding Bonds. See “*Description of the Bonds—Limitation on Liens.*”

Events of Default ..... Events of default with respect to the Bonds include (1) any present or future External Indebtedness shall become due and payable prior to its stated maturity (otherwise than at the option of the Issuer or pursuant to an option exercisable by a creditor in the absence of a default by the Issuer); (2) any default shall occur in the payment of principal of, or premium or prepayment charge (if any) or interest on, any future External Indebtedness when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, originally applicable thereto; (3) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or (4) any default shall occur in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person, provided that the aggregate amount of the relevant External Indebtedness in respect of which one or more of such events have occurred equals or exceeds US\$50.0 million (or its equivalent in any other currency or currencies). See “*Description of the Bonds—Events of Default.*”

Use of Proceeds ..... The Issuer intends to use the net proceeds of the Offering to repurchase a portion of its US\$ 5.125% Bonds due 2022 and its US\$ 5.625% Bonds due 2023 (the “2023 Bonds,” together with 2022 Bonds, the “Target Bonds”) pursuant to its tender offer announced on June 21, 2021 (the “Tender Offer”) and to pay related costs and expenses.

Collective Action .....	The Bonds contain “collective action clauses.” Under these provisions, modifications affecting the reserve matters listed in the Indenture, including modifications to payment and other important terms, may be made to a single series of debt securities issued under the Indenture (including the Bonds) with the consent of the holders of 75% of the aggregate principal amount outstanding of that series, and to two or more series of debt securities issued under the indenture either (x) with the consent of holders of 75% of the aggregate principal amount of the outstanding debt securities of all the series affected by the proposed modification (taken in aggregate) if the modification is uniformly applicable; or (y) with the consent of the holders of 66 <sup>2</sup> / <sub>3</sub> % of the aggregate principal amount outstanding of all series of debt securities that would be affected and 50% in aggregate principal amount outstanding of each affected series of debt securities. See “ <i>Description of the Bonds—Meeting, Amendments and Waivers—Collective Action.</i> ”
Governing Law .....	New York; <i>provided, however</i> , that all matters governing the Issuer’s authorization and execution of the Indenture and the Bonds will be governed by, and construed in accordance with, the laws of Mongolia.
Listing .....	Approval-in-principle has been received for the listing and quotation of the 2031 Bonds on the SGX-ST. Application will be made for the listing and quotation of the 2027 Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Bonds are listed on the SGX-ST.
Taxation .....	See “ <i>Taxation</i> ” for a discussion of certain U.S. federal and Mongolia tax consequences associated with an investment in the Bonds. Investors should consult their own tax advisors in determining the tax consequences of the purchase, ownership and disposition of the Bonds.
Trustee .....	Deutsche Bank Trust Company Americas.
Registrar and Transfer Agent.....	Deutsche Bank Trust Company Americas.
Paying Agent .....	Deutsche Bank Trust Company Americas.
Development Finance Structuring Agent.	J.P Morgan Securities plc.
Service of Process Agent .....	Cogency Global Inc.

## RISK FACTORS

*An investment in the Bonds involves certain risks. You should carefully consider all of the information in this offering memorandum and, in particular, the risks described below, prior to making an investment decision with respect to the Bonds. The risks described below are not the only risks that may affect the Issuer or the Bonds. You should also note that certain of the statements set forth below constitute forward-looking statements. In general, investing in the securities of issuers in emerging market countries, such as Mongolia, involves risks not typically associated with investing in the securities of issuers in countries with more developed economies and regulatory regimes.*

### **Risks Relating to Mongolia**

***Public health crises and pandemics/epidemics, such as the recent outbreak of the COVID-19 virus, may materially adversely affect Mongolia's economy***

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which was first reported to have been transmitted to humans in late 2019 and was declared a “pandemic” by the WHO in March 2020, has spread globally over the course of 2020 to date and has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. Mongolia declared a state of emergency in response to the outbreak on January 17, 2020. On January 30, 2020, the WHO declared COVID-19 a public health emergency of international concern and subsequently declared the outbreak a pandemic on March 11, 2020. The continued spread has led to a public health crisis and has negatively affected the global economy, adversely impacting international trade and increasing economic uncertainty. COVID-19 significantly affected the Mongolian economy in 2020, and the continued severity and duration of COVID-19's impact on the global economy, as well as on Mongolia's economy, is difficult to predict and cannot be determined.

In response to COVID-19, the Mongolian government took early actions through prevention measures set in place by the State Emergency Commission to reduce the possible impact on the economy. As of June 15, 2021, the COVID-19 outbreak remained under relatively good control, with a total of 80,733 confirmed cases and 394 deaths since the beginning of the outbreak. However, no assurance can be given that the COVID-19 outbreak will remain under control in Mongolia or, if case numbers increase, that Mongolia will be able to limit a more widespread outbreak, or that it would not be required to again impose lockdown measures.

However, measures taken to combat the spread of COVID-19 such as suspension of air travel, limited operation hours for all types of restaurants and closures of schools have adversely affected various sectors in the economy. In addition, the improved situation of COVID-19 within Mongolia will not necessarily result in a corresponding improvement in Mongolia's economic performance, as Mongolia depends substantially on the export sector for economic growth, in particular exports to China. In early 2020, China imposed a strict lockdown, which led to decreased demand for coal imports and physical closure of border crossings between Mongolia and China for an extended period. Although China's approach to containing the infection and treating the infected population has thus far been effective, it cannot be guaranteed that China will quickly and sustainably recover to previous levels of economic growth, or that its demand for raw materials and commodities will return to pre-COVID-19 levels. Furthermore, as COVID-19 continues to spread around the globe, many countries have taken various lock-down measures and travel restrictions, which have suppressed domestic consumption, international trade and investment activities, resulting in pessimistic global growth estimates for 2020 and 2021. The decreasing global economic activities reduced demand and price for raw materials such as coal, one of Mongolia's major exports and economic drivers. As a result, Mongolia's real GDP contracted by 5.3% in 2020, compared to growth of 5.2% in the preceding year. For more information regarding the impact of COVID-19 on Mongolia and its economic performance, see “*Summary—Recent Developments—Worldwide Economic and Financial Difficulties.*”

To the extent the COVID-19 pandemic adversely affects Mongolia's economic, political and social situation, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section.

### ***Mongolia's economy has experienced periods of slow growth or contraction***

Historically, Mongolia has experienced periods of slow growth or contraction and a devaluation of the Tugrik. The ability of the Issuer to pay amounts of principal or interest under the Bonds is subject to, among other considerations, the performance of the Mongolian economy. In 2020, the Mongolian economy contracted, with GDP declining by 5.3%. Historically, certain policies implemented by the Government from time to time and other factors have caused fiscal imbalances or current account deficits. While the Government has implemented various measures in an attempt to stabilize the economy and reduce its budget deficits and improve fiscal discipline, factors outside of its control, such as the collapse of copper prices in 2008 and 2015, the outbreak of COVID-19 in 2019, continued weak commodity prices, or a slowdown in China's economic growth, may materially and adversely affect the economy and operating environment in Mongolia. Furthermore, although the Mongolian government has taken actions in response to the outbreak of COVID-19, there can be no assurance that these measures could effectively address the economic consequences caused by the outbreak of COVID-19 and the accompanying global economic slowdown.

In addition, Mongolia has received and will continue to seek financial support and resources from the international community. On May 24, 2017, the IMF announced a program of financial assistance for Mongolia which includes approximately US\$434.3 million in an extended fund facility. This program was accompanied by a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The IMF program was concluded on May 23, 2020. In addition, Mongolia has significant amounts of outstanding foreign currency denominated bonds and Government-guaranteed indebtedness. See "*Public Sector Debt.*" and "*Financial System – Development Bank of Mongolia (DBM).*"

Any slowdown in the Mongolian economy, including a significant deterioration of the fiscal budget or the value of the Tugrik, an increase in interest rates, or decline in global commodity prices for Mongolia's export commodities could adversely affect the ability of Mongolia to meet its obligations under its outstanding and future borrowings, including the Bonds.

### ***Mongolia has experienced and may again experience political and social instability***

Prior to 1990, Mongolia was a socialist country and the only functioning political party was the Mongolian People's Revolutionary Party, which is now the MPP. Since the collapse of communism in 1990, Mongolia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Mongolia's evolving political landscape. Such events have resulted in political instability as well as general social and civil unrest on certain occasions. See "*Mongolia—Governmental Structure—Political Parties and Previous Elections.*"

Mongolia's transition to democracy has been relatively peaceful, and transitions between governments have generally been smooth and peaceful (aside from the protests and riots of 2008). However, since there has historically been representation of various political parties in the Government, tensions continue to exist between the political parties and within each political party. The Issuer cannot assure you that politically generated disturbances will not occur in the future or on a wider scale, or that the Government will not pursue or implement policies that differ significantly from those of previous governments. Future changes in the Government, the ruling party, major policy shifts or lack of consensus between the various political groups and within each political party could lead to political instability and have a significant adverse impact on the economy and development of Mongolia, and investors may adopt an even more cautious approach towards Mongolia's securities markets or investments in Mongolia in general, and such factors could also adversely affect trading in the Bonds.

### ***Mongolia has limited foreign exchange reserves, significant foreign debt and faces risks of further currency depreciation***

The Mongolian economy has from time to time been subject to serious pressure on its balance of payments due to the significant deterioration of commodity export prices and sharp declines in foreign direct investment. Foreign exchange liquidity has also been under pressure from time to time, including due to sharp declines in inward financial flows and commodity export proceeds. Mongolia's foreign exchange

reserves were US\$3,541.6 million, US\$4,348.6 million and US\$4,534.2 million as of December 31, 2018, 2019 and 2020, respectively.

Mongolia has significant amounts of outstanding foreign currency denominated bonds and Government-guaranteed indebtedness. In addition, Mongolia has other outstanding external debt obligations, including borrowings from international financial institutions and bilateral creditors, such as the World Bank and the ADB. See “*Public Sector Debt.*” and “*Financial System – Development Bank of Mongolia (DBM).*” Weak external demand, lower capital inflows and the slowdown in the Mongolian economy present refinancing risks with respect to these debt instruments. If foreign exchange reserves were to decline, Mongolia’s ability to repay its foreign currency-denominated debts would be materially and adversely affected.

Downgrades in Mongolia’s credit rating, or the rating of a borrower with a loan guaranteed by the Government, could cause outstanding amounts to be due under existing loans entered into or guaranteed by the Government with terms providing for acceleration of amounts outstanding upon a ratings downgrade. In the event of a downgrade and absent a waiver of such a provision, the Government could be obligated to make repayments under these loans, which could materially and adversely affect its ability to repay or refinance its other debt obligations, including the Bonds. Cross default of material indebtedness would likely result in a significant adverse impact on Mongolia’s liquidity position, economic stability, development prospects and investor confidence. A continued increase in the fiscal deficit and debt levels could also materially and adversely impact the Government’s ability to make repayments on its debt obligations and the Government may require additional external financing to do so. Further ratings downgrades could also have a material adverse impact on the Government’s ability to secure new financing or the cost of such financing, and as a result, the Government’s liquidity and ability to fund or refinance its obligations, as they become due. See “—*Any downgrade of Mongolia’s credit rating could have a material adverse effect on the market value and trading price of the Bonds.*”

Mongolia’s financial situation depends heavily on China, which is Mongolia’s largest trading partner, including due to the significant long-term currency swaps between the People’s Bank of China and the Bank of Mongolia through which Tugrik and Renminbi are exchanged. The first swap arrangement was established in 2011 with the objective of promoting bilateral trade between the two countries and providing short-term liquidity to stabilize financial markets. In August 2014, a three-year swap agreement was signed for up to RMB 15.0 billion, which represented over 15% of Mongolia’s 2015 GDP. The agreement was extended once in June 2017 for a further three years, and in 2020 was further extended for another three years.

***Any downgrade of Mongolia’s credit rating could have a material adverse effect on the market value and trading price of the Bonds***

On April 20, 2018, S&P affirmed Mongolia’s long-term sovereign credit rating at “B-” with stable outlook citing nascent political institutions and relatively low income level. On November 28, 2019, S&P affirmed Mongolia’s long-term sovereign credit rating at “B” with a stable outlook, Mongolia’s evolving institutional settings and elevated external imbalances. On July 5, 2019, Fitch affirmed Mongolia’s long-term foreign-current issuer default rating at “B” with a stable outlook, citing robust growth outlook, improving fiscal metrics and strong governance indicators. On March 16, 2021, Moody’s changed Mongolia’s outlook to stable from negative and affirmed its long-term “B3” issuer and foreign currency senior unsecured bond ratings, citing the stabilization of liquidity risks and external pressures. On May 25, 2021, Fitch Ratings affirmed Mongolia’s long-term foreign-currency issuer rating at “B” with a stable outlook, reflecting Fitch’s assessment that economic recovery will continue during the remainder of 2021 that will facilitate a modest decline in the government debt/GDP ratio, despite temporary disruptions associated with a spike in COVID-19 cases since March 2021. See “*The Mongolian Economy—Ratings.*”

Any downgrades in Mongolia’s sovereign rating or placement of Mongolia on ratings watch may have an adverse effect on the market value and trading price of the Bonds. Furthermore, as a consequence of any downgrade, the Issuer’s ability to obtain external funding to meet obligations under the Bonds may be adversely affected. A credit rating is not a recommendation to buy, sell, or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors above and other

factors that may affect the value of the Bonds issued. Negative changes to Mongolia's credit ratings may affect the availability of financing for the Issuer from new and existing counterparties.

***Corruption and bribery are threats to Mongolia's economic growth and democratic governance***

Corruption and bribery are threats to Mongolia's economic growth and democratic governance. The Independent Authority Against Corruption ("IAAC") has investigated, and is conducting ongoing investigations in relation to allegations of corruption, misuse of power, misappropriation of state funds and bribery against former Government officials. See "*Mongolia—Legal Reform—Measures against Corruption and Bribery*" and "*Mongolia—Draft Parliamentary Report.*" Alleged acts of corruption and bribery by Government officials could materially and adversely affect the Government, the Mongolian economy, the political environment and stability, negatively impact investor confidence and adversely affect trading in the Bonds.

***Key decisions concerning laws relating to foreign participation in the country's mining sector may have an adverse impact on the Mongolian economy***

The Mongolian economy depends heavily on commercial activity associated with the Mongolian mining industry. The development of mining laws and regulations in Mongolia continues to be at a nascent stage and is influenced by the interests of political parties, mining interests, domestic financial interests as well as the need to maintain the Mongolian mining industry as a commercially attractive choice for foreign investment.

Laws governing Mongolia's mining industry, including provisions pertaining to Government participation in or control of certain projects as well as the royalties and other taxes payable by the mining industry, have historically been subject to periodic substantive revision by the Mongolian Parliament. For example, the Government has imposed a windfall profits tax on mining reserves and made changes to the basic royalty rate in order to replace lost tax revenues. In 2012, the passage of the Strategic Entities Foreign Investment Law of Mongolia ("SEFIL") adversely impacted investments in the mining sector. The law was aimed at tightening Mongolia's regulation of foreign participation in the mining, banking and finance, and media and telecommunications sectors, which were considered to be of strategic importance to national security and economic growth. The SEFIL was repealed in 2013. In addition, the Investment Law requires investors with foreign (direct or indirect) state ownership of 50.0% or more to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in certain strategic sectors, which includes the mining sector. Furthermore, the Government executed the Mine Plan with Oyu Tolgoi LLC, Turquoise Hill and Rio Tinto in May 2015 to address funding and feasibility studies for Oyu Tolgoi, and a project financing facility agreement for Oyu Tolgoi's Phase II was signed in December 2015. The development of underground mining at Oyu Tolgoi was approved in May 2016, with a then total expected investment of US\$5.3 billion. Approximately US\$5.1 billion has been invested in the underground mining development as of March 31, 2021. Although the Government has a significant role in major mining projects such as Oyu Tolgoi, legislative changes in 2017 permitting the Government to transfer its equity interests in such projects in exchange for royalties created uncertainties for investors in the mining sector. Future revisions to this legal regime may adversely impact foreign direct investment in Mongolia and its mining industry in particular, and in turn, the Mongolian economy could be materially adversely affected.

***The Mongolian economy depends heavily on commodities and agriculture for growth, which are cyclical in nature, and is particularly vulnerable to fluctuations in commodity prices***

The Mongolian economy depends heavily on certain market sectors, particularly coal, copper and gold mining and agriculture, including herding livestock. According to the National Statistical Office of Mongolia, mining and agriculture accounted for 23.8% and 10.8%, respectively, of Mongolia's GDP for 2018, 23.2% and 10.8%, respectively, of Mongolia's GDP for 2019, and 21.6% and 12.1%, respectively, of Mongolia's GDP for 2020. The reliance on mineral revenue makes the economy vulnerable to being an undiversified, dual mining/agricultural economy subject to mineral price volatility and occasional severe winters. Mongolia's mining boom also carries with it certain risks associated with mineral dependency, such as "Dutch Disease," where an increase in the exploration of natural resources is accompanied by a decline in the manufacturing sector, an appreciating currency and inflation, unemployment in the non-mining sectors

with a deepening inequality among workers by placing a premium on skilled labor, and the “natural resource curse” of rising corruption, unequal distribution of wealth and related social disruption.

Prices for agricultural products and commodities such as gold and copper are based upon or affected by global prices for such products, which tend to be cyclical in nature. The markets for such products are sensitive to changes in industry capacity and output levels and changes in the world and Asian economies (including the imposition of tariffs and/or anti-dumping measures by the United States, the EU, countries in Southeast Asia or by other principal export markets), all of which can have a significant impact on selling prices. As such, the Mongolian economy is affected by both worldwide and regional levels of demand for these products, along with price competition. Moreover, weak economic conditions or changes in consumer preferences, whether in the world, Asia generally or Mongolia specifically, may reduce demand and put pressure on margins. For example, generally lower prices for copper and coal put pressure on the pricing of Mongolian copper and coal in the first half of 2020, which contributed to the slowdown in GDP growth. Similarly, the economic impact of the COVID-19 pandemic, including reduced global consumer demand and border closures that limited tourist arrivals to Mongolia during the peak summer season, contributed to lower cashmere sales in 2020, both for finished products and raw materials. To the extent that the Mongolian economy is affected by such price fluctuations, this may adversely affect trading in the Bonds.

***The Mongolian economy is heavily dependent on its export trade and, in particular, relies on China as its main export market. Any decrease in the level of demand in China for exports from Mongolia will affect the Mongolian economy***

The Mongolian economy relies heavily on its export trade and produces and exports large amounts of metal ores, coal and agricultural products. Since its transition to a market economy in the 1990s, China has emerged as Mongolia’s largest trading partner, mainly due to its geographic proximity, the size of its economy and its demand for Mongolia’s export commodities. According to the National Statistical Office of Mongolia, China accounted for 93.3%, 88.1% and 72.5% of Mongolia’s total exports in 2018, 2019 and 2020, respectively. Mining products such as coal, copper and other metals represent the majority share of Mongolian exports to China. As the Mongolian economy is heavily dependent on its export trade, trade relationships with China can influence Mongolian economic conditions and, in particular, any decrease in the level of demand for its exports would adversely affect Mongolia’s GDP and economy. For example, the growth of the Chinese economy has slowed in recent years and trade volume between China and Mongolia was reduced in 2018 and 2019. There is no assurance that China’s economy will not experience future slowdowns, which could adversely impact China’s demand for exports from Mongolia. Furthermore, as a result of the outbreak of COVID-19, in the first half of 2020, Mongolian exports to China decreased significantly, as trade was essentially suspended for over two months and China’s economy slowed, lowering demand for raw materials and commodities. The Issuer cannot assure you that there will not be an increase in Mongolian imports, a decrease in Mongolian exports, or a reduction in prices of Mongolian exports, that would lead to trade deficits. In 2020, Mongolia recorded a current account deficit of US\$674.6 million primarily due to a higher goods balance compared to the prior year. In addition, any extended slowdown in the growth of China’s economy may lead to decreased demand or lower prices for Mongolian exports to China, which would also adversely impact trade between China and Mongolia and potentially give rise to a trade deficit. Any significant trade deficit would adversely affect the Mongolian economy, and therefore, trading in the Bonds may be adversely affected.

***A decline in Mongolia’s foreign exchange reserves could affect liquidity and interest rates in the Mongolian economy***

The Mongolian currency depreciated significantly during the global economic crisis of 2008 and 2009. Again, in 2014 and 2015, the currency depreciation was aggravated by policies enacted by the Bank of Mongolia to maintain the then de facto currency peg to the U.S. dollar. In 2016, currency depreciation accelerated primarily due to significant drops in commodity prices and political uncertainty that caused investor confidence in the Mongolian economy to deteriorate. The exchange rate of the Tugrik against the U.S. dollar has remained volatile in recent years, with the value of the Tugrik generally declining. The Bank of Mongolia has taken measures, including the implementation of a flexible exchange rate regime that limited intervention and opportunistic building of reserves. Intervention was transparently conducted through a bi-weekly foreign exchange auctioning mechanism supported by increasing the policy interest rate

from 10.50% in May 2016 to 15.00% in August 2016, and these measures were effective in calming markets and attracting capital back to Mongolia. Since August 2016, however, the Bank of Mongolia has steadily decreased the policy interest rate, which was 11.0% in December 2019. The Monetary Policy Committee cut the policy rate in a series of adjustments by five percentage points from 11.0% at the beginning of 2020 to 6.0% November 2020 in response to the continued impact of the COVID-19 pandemic on the Mongolian economy. The total foreign exchange reserves of Mongolia increased from US\$3,549.1 million as of December 31, 2018, to US\$4,348.6 million as of December 31, 2019, to US\$4,534.2 million as of December 31, 2020 and to US\$4,891.6 million as of April 30, 2021. However, the Issuer cannot assure you that these reserves will not decline significantly, which could result in reduced liquidity and higher interest rates in the Mongolian economy. Reduced liquidity or an increase in interest rates in the Mongolian economy following a decline in foreign exchange reserves could adversely affect trading in the Bonds and the Government's ability to repay its foreign currency-denominated obligations.

***Mongolian companies, including state-owned entities, have dealings with entities subject to U.S. sanctions***

Mongolia has extensive trade, investment and other relations with both China and Russia, and as part of these relations Mongolian companies have dealings with entities that are, or may become, subject to U.S. or other international economic sanctions. For example, DBM obtained a US\$20.0 million loan from VneshEconBank in June 2015 to facilitate an upgrade to the combined heat and power (“CHP”) 4 power plant in Ulaanbaatar. This loan has a term of eight years. DBM previously had a US\$300.0 million export finance credit line from JSC VTB Bank and its affiliates, which was guaranteed by the Government. Both VneshEconBank and VTB Bank are Russian state-owned entities on the Sectoral Sanctions Identification List of the U.S. Department of Treasury. Mongolia imports substantially all of its petroleum products from Russia, and as part of those imports Mongolian companies, including state-owned Ulaanbataar Railway JSC, purchase petroleum products from the Russian state-owned Rosneft Oil Company, which is also on the Sectoral Sanctions Identification List. The United States, the EU, and the United Kingdom each implemented sectoral sanctions in 2014 in reaction to Russia's actions in Ukraine. Furthermore, the United States has implemented sanctions and trade restrictions in respect of Chinese companies, including Huawei Technologies Co., Ltd. The Government will provide a covenant to the initial purchasers of the bonds (see “*Plan of Distribution*”) that it will not provide the proceeds from the sale of the Bonds to any entity subject to certain international sanctions programs, including those of the United States, the EU and the United Kingdom.

The imposition of economic sanctions and trade restrictions of the types discussed above are highly political, and it is difficult to predict when and how they will be imposed. While the imposition of these types of sanctions and trade restrictions have not yet had a significant impact on Mongolia's economy, if the scope of these types of measures—including the entities that are subject to them—were to broaden, they could limit Mongolia's ability to do business with its two major trading partners. These or similar developments could adversely affect Mongolia's economic condition and growth prospects, which could in turn adversely affect trading in the Bonds.

***Emerging markets such as Mongolia are subject to greater risks than more developed markets, and are particularly vulnerable to fluctuations in the global economy***

The Mongolian market and the Mongolian economy are influenced by economic and market conditions in other countries. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of many emerging market countries, including Mongolia, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Mongolia and adversely affect the Mongolian economy. Despite the effect of the forbearance extended by the Bank of Mongolia in response to the COVID-19 pandemic on the economy, Mongolia's financial system continues to record high levels of non-performing and sub-standard assets that may, depending on the prospects for economic recovery and the level of government support available, cause problems in the Mongolian financial system. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Mongolian financial markets and indirectly, in the Mongolian economy in general. Any worldwide financial instability could also have a negative impact on the Mongolian economy, including on the movement of exchange rates and interest rates in Mongolia. In addition, during such times, companies

that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Mongolian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect trading in the Bonds. Mongolia's inflation rate is also higher than some of the more developed economies. A further increase in Mongolia's inflation rate could materially and adversely affect trading in the Bonds.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Mongolia are subject to rapid change and that the information set out in this offering memorandum may become outdated relatively quickly.

***Destabilizing events in other parts of the world could affect Mongolia's economy***

Natural disasters, wars, terrorist attacks, riots, pandemics, civil commotions and other events beyond the Issuer's control have increased the uncertainty of global economic prospects in general. The Issuer cannot assure you that further terrorist acts or other destabilizing events will not occur in the future. In addition, although such acts and events have not targeted or directly affected Mongolia or its assets, the Issuer cannot assure you that they will not do so in the future. Any terrorist attack, natural disaster or other such event including damage to Mongolia's infrastructure could have a material adverse effect on its economy and adversely affect trading in the Bonds.

***Uncertainties and instability in global market conditions could adversely affect Mongolia's economy***

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to the COVID-19 pandemic, economic instability and trade tensions in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets as well as the price of the Bonds.

The unprecedented COVID-19 pandemic had a major negative effect on the global economy. Due to the widespread impact of COVID-19, the international community has taken measures including border closures, domestic lockdowns and travel restrictions to prevent the transmission of the virus. For more information regarding the impact of COVID-19 on Mongolia and its economic performance, see "*Summary—Recent Developments—Worldwide Economic and Financial Difficulties.*"

Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had slowed from its previous period of double-digit GDP growth. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the EU, the United States, Japan and China, in reaction to the global financial crisis that began in 2007. Protests, unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. In particular, the tensions between China and the United States has raised concerns with respect to trade, treaties, tariffs, and international organizations since 2018. As both countries are important trading partners for many countries, the continued friction between them, including possible confrontations over Taiwan or the South China Sea, have introduced significant uncertainties and volatility to international trade and the financial markets. Mongolia's economy is heavily intertwined with that of China. Trade with China typically accounts for over 60% of Mongolia's total trade, while trade with Russia typically accounts for 15% to 20%. Any severe disruption or prolonged slowdown in the global or Chinese economy may materially and adversely affect our trade volumes, economic performance, as well as the value of the Bonds.

***The Mongolian economy, in particular the agricultural and livestock sector, may be negatively affected by climate change and severe weather events***

The agricultural sector in Mongolia comprised approximately 10.8% of nominal GDP in each of 2018 and 2019 and 12.1% in 2020. This sector is particularly sensitive to climate changes and severe weather events. Mongolia experiences an extreme continental climate with long winters and short summers. Mongolia has

an average annual rainfall of 200 to 220 millimeters, and demand for fresh water is expected to substantially increase in the next decade. Climate change and weather events may have a material adverse effect on conditions for agricultural production and the survival of livestock. The availability of water may adversely affect the supply and pricing of agricultural and livestock products and in turn have an adverse effect on Mongolia's economy. In addition, the scarcity of water resources may also affect the development and operation of mines and thermal power plants, which could also have an adverse effect on the Mongolian economy.

### **Risks Relating to the Bonds**

#### ***Non-enforcement of foreign judgments may limit the ability of Bondholders to recover damages from the Issuer through court proceedings***

The Issuer is the Government of Mongolia, a sovereign nation. As a result, it may be difficult for investors (i) to effect service of process, including judgments, on the Issuer outside of Mongolia, (ii) to enforce, against the Issuer, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions, (iii) to enforce a foreign arbitral award against the Issuer or (iv) to enforce, against the Issuer, in Mongolian courts, judgments obtained in jurisdictions other than Mongolia, including judgments obtained in connection with the Bonds, and the Indenture in any federal, state or appellate court in the State of New York.

The Bonds and the Indenture are governed by New York law and the Issuer has agreed in the Indenture that disputes arising thereunder or in respect of the Bonds are subject to arbitration before the Singapore International Arbitration Center. The Issuer has also agreed to submit to certain New York federal and state courts for the purpose of judicial relief in support of any arbitral award under the Indenture and the Bonds. However, Mongolian courts will not enforce any judgment obtained in a court established in a country other than Mongolia unless, among other things, there is in effect a treaty with such country and Mongolia providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Mongolia and the United States. As a result, you may be required to pursue claims against the Issuer in Mongolian courts. Although Mongolian courts may enter judgments based on choice of law of jurisdictions other than Mongolia, in view of the lack of experience of the Mongolian courts with foreign law, the results of such judgments may be unsatisfactory to support the legitimate claims of litigants. The Issuer cannot assure you that the claims or remedies available under Mongolian law will be the same, or as extensive, as those available in other jurisdictions.

However, Mongolia and Singapore are parties to the New York Convention and, accordingly, an arbitration award obtained in a state which is party to the New York Convention, such as Singapore, should be recognized and enforceable in Mongolia provided the conditions to enforcement set out in the New York Convention are met.

In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Tugriks, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia, or in the case of an arbitration award enforceable in Mongolia under the New York Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Tugriks and order enforcement of the same in Mongolia in Tugriks.

#### ***The Bonds may have limited liquidity***

The Bonds when issued will constitute a new issue of securities for which there will be no existing trading market. Although the Initial Purchasers may make a market in the Bonds, they are not obligated to do so, and any market-making activity with respect to the Bonds, if commenced, may be discontinued at any time without notice. The Issuer cannot assure you that a trading market for the Bonds will develop or be maintained. If such a market were to develop, it is not possible to predict the price at which Bonds will trade in such market or whether such market will be liquid or illiquid. The Issuer may, but are not obliged to, list or admit to trading Bonds on a stock exchange or market. If the Bonds are not listed or admitted to trading on any stock exchange or market, pricing information for the Bonds may be more difficult to obtain and the

liquidity of the Bonds may be adversely affected. If the Issuer lists or admits to trading an issue of Bonds, the Issuer cannot assure you that at a later date, the Bonds will not be delisted or that trading on such stock exchange or market will not be suspended. The Issuer cannot assure you that a market for the Bonds will develop in the future. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- the number of Bonds outstanding;
- prevailing interest rates;
- the rate of exchange between the Tugrik and the U.S. dollar;
- political and economic developments in Mongolia;
- financial, economic, political or other conditions, performance and prospects of Mongolia; and
- the market conditions for similar securities.

You may not be able to sell Bonds readily or at prices that will enable you to realize your anticipated yield. You should not purchase Bonds unless you understand and can bear the risk that such Bonds may not be readily saleable, that the value of such Bonds will fluctuate over time, that such fluctuations may be significant and that you may lose all or a substantial portion of the purchase price of the Bonds.

***Investors may be exposed and subject to exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor's Currency-equivalent yield on the Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Bonds and (iii) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Credit ratings may not reflect all risks relating to an investment in the Bonds***

One or more independent credit rating agencies may assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***The Bonds will include provisions commonly referred to as "collective action clauses" that permit the Issuer to amend, modify or waive certain provisions of the Bonds and withdraw declarations of acceleration without the consent of all the holders of the Bonds***

The Bonds will include provisions regarding voting on amendments, modifications and waivers which are commonly referred to as "collective action clauses," which permit the Issuer to amend or modify a provision of the Bonds, or obtain the waiver of compliance with a provision of the Bonds, without the Issuer obtaining the consent or affirmative vote of each holder of the Bonds. Under the terms of such provisions in the Bonds, certain key provisions of the Bonds, including, among others, the maturity date, interest rate and other payment terms, may be amended with only the consent of the specified majorities and bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted

against the proposed amendment, modification or waiver. See “*Description of the Bonds—Meeting, Amendments and Waivers—Collective Action.*” As a result, material terms of the Bonds may be amended, modified or eliminated in a manner that is adverse to Bondholders without their consent. In addition, the Bonds contain a provision providing for the withdrawal of a declaration of acceleration in certain circumstances with the consent of at least 50% of the holders of the Bonds.

***Change of laws may adversely impact your rights under the Bonds***

The terms and conditions of the Bonds are based on New York law in effect as of the date of this offering memorandum. The Issuer cannot assure you as to the impact of any possible judicial decision or change to New York law or administrative practice after the date of this offering memorandum.

***Reliance on Euroclear, Clearstream, Luxembourg and DTC procedures may limit your ability to act***

The Bonds will be represented on issue by one or more Global Bonds that are registered in the name of a nominee of DTC and deposited with a custodian for DTC. Except in the circumstances described in each Global Bond, Bondholders will not be entitled to receive Bonds in definitive form. Each of Euroclear, Clearstream, Luxembourg and DTC and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Bond held through it. While the Bonds are represented by a Global Bond, Bondholders will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Bonds are represented by Global Bonds, the Issuer will discharge its payment obligation under the Bonds by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Bond must rely on the procedures of the relevant clearing system and its participants to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Bond.

Holders of beneficial interests in a Global Bond will not have a direct right to vote in respect of the Bonds so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***Bonds which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade***

Since the Bonds have minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof, it is possible that such Bonds may be traded in amounts that are not integral multiples of such minimum specified denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in bearer form in respect of such holding (should such Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to a specified denomination.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations of respective jurisdictions, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

***The Bonds may not be a suitable investment for all investors seeking exposure to “development finance” assets***

There is currently no market consensus on what precise attributes are required for a particular project or financing to be defined as “green,” “sustainable” or “development,” and therefore no assurance can be provided to investors that the Bonds and the use of proceeds by the Issuer or any development impact projects, will satisfy, whether in whole or in part, any expectations or requirements of any investor or any present or future expectations or requirements with respect to development finance, green bonds or sustainability. Neither the Issuer nor the Development Finance Structuring Agent makes any representations or assurances as to whether (and are not responsible for ensuring that) (a) the characterization of the Bonds as development finance or the level of its expected development intensity rating impact will (i) comport with any investor’s definition of green, sustainable or development finance, (ii) meet any investor’s criteria and expectations with regard to developmental impact, or (iii) comport with the characterization or definitions used by any other development finance institution in the public or private sectors or (b) Government savings, if any, derived from the Tender Offer, will in fact be used for eligible development finance projects.

## **USE OF PROCEEDS**

The Issuer estimates that the net proceeds from the sale of the Bonds will be approximately US\$ 980,072,000, after deducting underwriting commissions and estimated expenses related to the Offering. The Issuer intends to use the net proceeds of the Offering to repurchase a portion of the Target Bonds pursuant to the terms of the Tender Offer and to pay related costs and expenses.

## DEVELOPMENT IMPACT

Over the past thirty years, Mongolia has undergone a comprehensive transformation that has led to its economic growth and social development. Over this period the country's per capita GDP has tripled and it has established a sound institutional framework and the basis for a market economy.

In 2020 Mongolia ranked 99<sup>th</sup> out of 189 countries on the Human Development Index, a composite index of life expectancy, education and per capita income statistical indicators promulgated by the United Nations Human Development Office. Mongolia's Human Development Index value in 2020 was 0.737, indicating significant improvement from its value of 0.604 in 1995. In addition, Mongolia's score on the Index of Economic Freedom, an annual ranking of the economic freedom of 184 countries, from property rights to entrepreneurship, published by the Heritage Foundation, improved from 47.8 in 1995 to 62.4, ranking its economy as the 86<sup>th</sup> freest.

To ensure sustainable and inclusive growth, Mongolia has opportunities to strengthen its performance across multiple sectors: in the healthcare sector, the mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease was 35% in 2019, compared to a median of 22.1% in other developing countries; in the technology sector, in 2018 the value added from medium/high-tech industry accounted for 4.7% of total value added, compared to a median of 15.3% in other developing countries; in the transportation sector, Mongolia received an overall score of 2.37 on the Logistics Performance Index – a composite index collected by the World Bank to measure the quality of trade and transport-related infrastructure (1=low, 5=high) – compared to a median of 2.58 in other developing countries.

Through the refinancing of a portion of the 2022 and 2023 bonds and the resulting lower cost of debt service, Mongolia expects to partially finance the following development outputs:

- 1. Expand healthcare services through building a second branch of the national cancer center, which is anticipated to:**
  - Upgrade cancer early detection and prevention;
  - Introduce new techniques and technologies to improve diagnostic and treatment capacity and access;
- 2. Promote sustainable public transportation in Ulaanbaatar through the “Public transport reform” project, which is anticipated to:**
  - Increase the capacity of the public transport system by 1,500 buses, reducing traffic congestion;
  - Introduce environmental friendly vehicles, reducing fuel costs by 65%;
  - Increase public transportation affordability through convenient fares;
  - Improve access to public transportation to people with disabilities;
- 3. Devise platforms that incorporate and advance new technologies for government services, including:**
  - Develop and promote the E-Mongolia government service application, which is anticipated to provide an electronic interface for a total of 496 government services;
  - Issue citizens and registered organizations digital signatures, enabling electronic access to government services; and
  - Establish a nationwide unified and integrated address information system.

The anticipated impact of the development outputs described above are expected to advance the United Nations Sustainable Development Goals (SDGs) 3, 11, and 16, and in particular the targets below:

- **SDG Target 3.4:** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being;

- ***SDG Target 3.c:*** Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small-island developing states;
- ***SDG Target 11.2:*** By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons; and
- ***SDG Target 16.6:*** Develop effective, accountable and transparent institutions at all levels.

## MONGOLIA

### Overview

Over the past three decades, Mongolia has transformed itself from a socialist country with a planned economy into a multi-party democracy with one of the world's fastest-growing economies. From 2010 through 2020, Mongolia experienced average real GDP growth of 7.1% per annum. Located between Russia (to its north) and China (to its south), Mongolia possesses vast, largely untapped mineral assets, which have only begun to be developed.

A number of significant projects have been undertaken in recent years to develop Mongolia's extensive mineral resources. The Oyu Tolgoi mine, one of the world's largest copper-gold reserves under development, is expected to commence full operations after the construction of an underground mining expansion, which the Government expects will be completed between 2021 and 2024. Approximately US\$4.9 billion was invested in the underground mining development from 2016 to 2020. Mongolia continues to develop other major projects in the coal sector, including the Tavan Tolgoi formation, which is believed, according to the World Bank, to be one of the world's largest coal deposits under development with an estimated 7.6 billion to 8.0 billion tons of coking and thermal coal resources. In addition, Mongolia possesses large reserves of copper, gold, uranium and rare earth minerals that are being developed at numerous sites.

However, high levels of external debt and reduced foreign exchange reserves created pressure on Mongolia's near-term fiscal stability from 2016. In response to this difficult near-term financial position, including balance of payment and exchange rate and foreign reserve pressures, the Government requested IMF financial assistance in September 2016. On May 24, 2017, the Government finalized the terms of a three-year financial assistance program with the IMF, which included a three-year extended arrangement under an EFF program, in a total amount of SDR 314.5 million (approximately US\$434.3 million). The EFF program was agreed as part of a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The IMF program, including the EFF program, was intended to (i) discipline financial policy, (ii) improve central bank independence, (iii) strengthen the financial sector, (iv) foster economic diversification and inclusive growth, and (v) protect the most vulnerable in society. The IMF staff has stated that Mongolia made major progress in strengthening the resilience of its economy, including by public debt reduction and reserve accumulation, under the program, and that the policy buffers built during the program strengthened its ability to take emergency actions to combat the COVID-19 pandemic. The IMF program concluded on May 23, 2020. See "*Mongolia—Technical and Financial Assistance.*"

In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the ongoing outbreak of the COVID-19 pandemic caused by a new strain of coronavirus, as further described below;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- increased uncertainties resulting from the United Kingdom's exit from the EU;
- financial and social difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as changes in policy rates by the U.S. Federal Reserve and other central banks;
- political and social instability in various countries in the Middle East, including Iraq, Syria and Yemen; and

- fluctuations in coal, copper and other commodity prices.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which was first reported to have been transmitted to humans in late 2019 and was declared a “pandemic” by the WHO in March 2020, has spread globally over the course of 2020 to date and has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. In addition, there has been significant volatility in global financial markets due to the COVID-19 pandemic in recent months. Moreover, the value of the Tugrik relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely in 2020, and the value of the Tugrik has generally declined. A depreciation of the Tugrik generally increases the cost of imported goods and services and the required amount of Tugrik-denominated revenue for Mongolian borrowers, including the Government, to service foreign currency-denominated debt.

Mongolia declared a state of emergency in response to the outbreak of COVID-19 on January 17, 2020. The measures adopted by Mongolia to control the spread of the disease have been relatively effective. However, the economic effects of the efforts to contain the disease, both in Mongolia and abroad, have had a substantial adverse effect on the Mongolian economy. Mongolia’s economic growth has been adversely affected, with GDP contracting by 5.3% in 2020, compared to growth of 5.2% in 2019. The Government has been implementing a number of measures to contain the spread of COVID-19, including a suspension of international travel in and out of the country (other than returning Mongolian citizens), the implementation of strict self-isolation and quarantine measures for those who may be infected, and the temporary closure of school facilities until the possibility of further contamination has subsided sufficiently. In addition, the Government has implemented a number of measures, including the following, to mitigate the adverse impact of the COVID-19 pandemic on the Mongolian economy:

- lowering the Bank of Mongolia’s policy rate from 11.0% at the beginning of 2020 to 6.0% in November 2020, and the lowering of the reserve requirements on banks’ liabilities by two percentage points to 8.5% on March 11, 2020;
- an economic stimulus package of approximately US\$1.8 billion adopted in 2020, including US\$64.8 million for health spending, including COVID-19 testing and key medical equipment; US\$612.2 million in tax relief and other support for individuals and businesses, and US\$1.13 billion in economic stimulus, including budgetary support of US\$407.1 million and US\$720.0 million to fund projects in food processing, manufacturing, agriculture and infrastructure;
- changes in fiscal priorities to prioritize: health-sector financing, salaries, pensions and welfare benefits, and electricity, heating and maintenance. The Government has also suspended funding for foreign and domestic travel, conference costs, major repairs and renovations, and other costs that can be deferred or suspended; and
- debt relief in the form of extensions of mortgages and consumer loan repayment schedules by six months and consumer loan repayment schedules by 12 months, suspensions of late payment penalties for missed loan repayments, suspension of recording of missed loan repayments in the Bank of Mongolia’s repayments database, and provision of interest subsidy for “rent to own” mortgage loans to be offered to public officials and public service officials who are working in high-risk conditions.

In response to the COVID-19 pandemic, the Government has adopted a comprehensive stimulus plan estimated at MNT5.8 trillion (US\$2.0 billion). This plan includes various programs to provide relief to households, support businesses through tax exemptions and discounts, and the procurement of vaccines and medical equipment. Pursuant to this stimulus plan, approximately MNT2.8 trillion was funded and disbursed in 2020, while the timing and disbursement of the remaining MNT3.0 trillion is subject to change taking into consideration various factors, including budgetary restrictions, approvals and funding.

Mongolia received US\$541.8 million in funding from the IMF, the World Bank, the ADB, the AIIB and other international lenders to finance a significant portion of its response to COVID-19; see “*Mongolia—Technical and Financial Assistance.*”

For the US\$1.8 billion economic stimulus package adopted in 2020 and described above, the tax relief measures included waivers of taxes for the period from April to October 2020 for over 526,000 individuals and certain entities, waivers of corporate income taxes for lower revenue entities, and VAT rebates for certain dividend payments. Some of these tax relief measures have been subsequently extended; see “*The Mongolian Economy – Taxation – COVID-19-related Tax Measure.*” Social protection policy steps in that package included higher child support payments, financial support for employment and higher welfare benefit payments. Businesses received a six-month exemption from requirements to pay social insurance.

Mongolia has implemented vaccinations as part of its COVID-19 control measures with significant success, and, accordingly, the Government has eased certain of its other control measures such as, border control and travel restrictions. Mongolia’s first COVID-19 vaccines arrived on February 23, 2021, and as of June 15, 2021 4,779,892 of the total targeted 4,300,000 vaccines had arrived. Mongolia launched an intensive vaccination campaign in March 2021, with the goal of vaccinating approximately 16,000 - 20,000 people per day at 85 different locations. As of June 15, 2021, 1,897,995 people (91.8% of the targeted population) including healthcare workers and frontline workers had received their first dose of vaccinations and 1,657,793 people (80.7% of the targeted population) had received their second dose of vaccination. Targeted population refers to individuals above 18 years old, and the Government expects to start vaccinating children ages 12-18 years old in late June this year.

The Government eased Ulaanbaatar's strict lockdown from May 8, 2021. Staff from the General Agency for Specialized Inspection are working to monitor the implementation of COVID-19 safety measures. Based on the current COVID-19 situation, the National Emergency Commission has announced that going forward it is unlikely that widespread lockdowns will be imposed, and it is more likely instead that partial lockdowns will be imposed as necessary.

The economic outlook for Mongolia in 2021 and for the foreseeable future remains highly uncertain as a result of, among others, (i) uncertainty regarding the scope and duration of the COVID-19 outbreak and its lasting social, political and economic effects, which may last for a significant period of time, and the fiscal and monetary policies being implemented by the Government and regulatory authorities to alleviate these effects by increasing liquidity and supporting incomes, (ii) adverse conditions in the Mongolian and global economies and financial markets due to the COVID-19 pandemic and (iii) factors such as fluctuations in coal, copper and other commodity prices and interest and exchange rates, higher unemployment, and lower consumer confidence due to the impact of the COVID-19 pandemic.

## **History**

In 1206, Chinggis Khan (also known as Genghis Khan) founded the Mongol Empire, the largest empire in history by land area, and was appointed emperor. The Mongol Empire’s territory extended from present-day Poland in the west to the Korean peninsula in the east, from Siberia in the north to the Arab peninsula and Vietnam in the south, covering approximately 33 million square kilometers. In 1227, after Chinggis Khan’s death, the Mongol Empire was subdivided into four kingdoms. In 1260, Chinggis Khan’s grandson, Kublai Khan, ascended the throne of one of the four kingdoms that encompassed present-day Mongolia and China. In 1271, Kublai Khan formally established the Yuan Dynasty by changing the state title into Yuan, with Yuandadu (present-day Beijing) as the capital.

The Yuan Dynasty was the first foreign dynasty to rule all of China, until it was taken over by the Chinese Ming Dynasty in 1368. In 1368, an uprising by the Red Turban army rebel movement broke out against the Mongols. The Red Turban army’s leader, Yuan-chang, captured the capital, Yuandadu, and founded the Chinese Ming Dynasty. Once the Chinese Ming Dynasty was established, all Mongols were expelled from China. The Yuan Dynasty’s last emperor, Toghlan-Temur, fled to present day Mongolia and became the first ruler of the Northern Yuan Dynasty.

The Northern Yuan Dynasty began with the end of Mongol rule in China and lasted until the emergence of the Manchurian Qing Dynasty in the 17<sup>th</sup> century. This period in Mongolian history was marked by factional power struggles and repeated invasions from the Manchurian Qing Army. By 1635, the entire territory of the Northern Yuan Dynasty had been invaded by the Manchurian Qing Army and was under Manchurian

rule. The Manchurian Qing Dynasty was the last imperial dynasty of China. In 1911, it was overthrown by the Chinese Revolution and the Republic of China was established.

In the aftermath of the Chinese Revolution, Outer Mongolia sought assistance from the Russian government to gain independence from China. Russia provided arms, ammunition and diplomatic support to Outer Mongolia in its efforts to seek independence. On December 1, 1911, Outer Mongolia proclaimed itself independent of China.

On December 28, 1911, Bogd Khan, the spiritual leader of Mongolia's Tibetan Buddhism, came to power in a theocratic Mongolian government. The new Chinese government, however, refused to recognize Mongolian independence, and in 1919, after the October Revolution in Russia, Chinese troops once again occupied Mongolia. In 1920, the Russian White Guard, aided by Japan, took control of Ulaanbaatar, Mongolia's capital city. In 1921, Mongolian revolutionaries, with the assistance of the Soviet Red Army, expelled Russian White Guards from the country and Mongolia became the first Asian country to declare a communist revolution. The 1921 Outer Mongolian Revolution firmly established Outer Mongolia's de facto independence from China and ended Chinese sovereignty over Outer Mongolia, which had existed since the 17<sup>th</sup> century.

On March 1, 1921, the current MPP was established and in 1924, the Mongolian People's Republic was proclaimed. The Mongolian People's Republic was led by communist leader and general chief commander of the Mongolian armed forces, Choibalsan Khorloo. Under his control, Mongolia became a centrally planned economy based on state and cooperative ownership. Over the next 65 years, Mongolia aligned itself closely with the former Soviet Union, particularly after the Sino-Soviet split in the late 1950s.

On October 27, 1961, Mongolia became a member of the United Nations. Mongolia was under a Soviet-dominated communist regime for almost 70 years, from 1921 to 1990. In the fall of 1989 and the spring of 1990, new currents of political thought began to emerge in Mongolia, inspired by the glasnost policies of Mikhail Gorbachev and the collapse of the communist regimes in Eastern Europe. In March 1990, a democratic revolution that started with hunger strikes to overthrow the government of the Mongolian People's Republic led to the peaceful renouncement of communism. Mongolia's renouncement of communism led to a multi-party system, a new constitution and a transition to a market economy. For a description of political events that took place after the democratic revolution, see "*—Governmental Structure — Political Parties and Previous Elections.*"

## **Geography and People**

Mongolia is the world's second-largest landlocked country and occupies a territory of 1.56 million square kilometers. It extends 2,392 kilometers from west to east and 1,259 kilometers from north to south. Mongolia is located in Northern Asia, bordered by Russia in the north and China in the south, east and west. Mongolia's strategic location provides it with direct access to the markets of these neighboring countries.

Mongolia has a varied geography with forested mountain ranges in the north, desert steppe and steppe areas with low mountains in the south, high mountains and glaciers in the west and vast plains in the east. Situated at an average altitude of 1,500 meters above sea level, Mongolia experiences an extreme continental climate with long winters and short summers.

Mongolia is one of the world's least densely populated countries. The total population of Mongolia in 2020 was approximately 3.36 million living in a vast area of 1.56 million square kilometers. Ethnic Mongols comprise more than 90% of the population. Ulaanbaatar is Mongolia's capital and largest city.

The official language is Mongolian and is spoken by approximately 90% of the population. English is the most widely spoken language following Mongolian. Many Mongolians also speak Russian, Korean, Japanese, Chinese and Western European languages.

## **Key Statistical Indicators**

The following tables set forth select recent information on the geography, climate, population, economy and politics of Mongolia:

**Geography:**

Location .....	Northern Asia, landlocked between China and Russia
Area .....	1,565 thousand square kilometers
Boundaries .....	Total: 8,253 kilometers, with China (4,710 kilometers in the south), and with Russia (3,543 kilometers in the north)
Climate.....	Dry continental climate with desert, steppe and mountain zones with large daily and seasonal temperature ranges
Major natural resources .....	Copper, coal, iron ore, gold, silver, fluorspar, uranium, tin, tungsten, oil and rare earth elements

**People:**

Population.....	Approximately 3.36 million (2020)
Population growth rate.....	2.2% (2010-2019)
Average life expectancy.....	70.7 years (2020)
Ethnic groups.....	Mongol (94.9%), Kazakh (5.0%), others (including Turks, Chinese and Russians) (0.1%)
Temples and churches by religion.....	Christianity (51.4%), Buddhism (39.1%), Islam (6.6%), other (2.9%)

**Government:**

Government type .....	Parliamentary
Capital.....	Ulaanbaatar
Head of State.....	President (elected by a universal popular vote for one term of six years, beginning from 2021)
Executive branch .....	Prime Minister and Cabinet
Legislative branch.....	State Great Khural (unicameral, 76 seats; members are elected for a term of four years)
Judicial branch.....	Supreme Court (serves as the court of last instance for the district and provincial courts and appellate courts; judges are nominated by the Judicial General Council and appointed by the President)
State structure .....	Unitary state; territory of Mongolia is divided administratively into 21 aimags (provinces) and the capital city

Key Indicators	As of and for the year ended or as at December 31,					As of and for the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)(2)</sup>
Nominal GDP (MNT billions) ...	23,942.9	27,876.3	32,411.2	37,280.8	36,958.6	7,525.5	9,219.3
Nominal GDP (US\$ millions) <sup>(3)</sup> .....	11,159.4	11,425.8	13,137.6	13,996.7	12,968.4	2,709.2	3,235.1
Real GDP (MNT billions) <sup>(4)</sup> .....	16,035.9	16,891.8	18,115.9	19,050.5	8,034.0	3,154.6	3,651.4
Real GDP (US\$ millions) <sup>(3)(4)</sup> .....	7,474.1	6,923.5	7,343.1	7,152.3	6,327.9	1,135.7	1,281.3
Real GDP growth .....	1.2	5.3	7.2	5.2	(5.3)	(10.7)	15.7
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> .....	7,910.0	8,999.1	10,259.8	11,566.5	11,459.5	N/A	N/A
Nominal GDP per capita(US\$ <sup>(3)(5)</sup> ) .....	3,686.7	3,688.5	4,158.7	4,385.4	4,167.0	N/A	N/A
Year-on-year inflation .....	1.1	6.4	8.1	5.2	2.3	6.4	2.5
Exports (US\$ millions) <sup>(3)</sup> .....	4,916.3	6,200.6	7,011.8	7,619.8	7,576.3	1,035.8	2,000.4
Imports (US\$ millions) <sup>(3)</sup> .....	3,358.1	4,335.4	5,875.0	6,127.4	5,293.9	1,161.6	1,523.7
Balance of payments (US\$ millions) <sup>(3)</sup> .....	-18.2	1,459.9	-141.7	452.9	786.9	(350.2)	170.4
Unemployment rate .....	10.0	8.8	7.8	10.0	7.6	6.6	8.8
Gross external debt (US\$ millions) <sup>(3)(6)</sup> .....	24,624.5	27,492.7	28,714.9	30,702.3	32,361.8	30,517.4	32,487.1
Gross foreign exchange reserves (US\$ millions) <sup>(2)</sup> .....	1,296.3	3,008.1	3,541.6	4,348.6	4,534.2	4,094.2	4,774.6
Gross foreign reserves import cover (months) .....	4.9	8.0	7.6	9.1	10.7	9.9	9.7
Population (in thousands) .....	3,026.9	3,097.7	3,159.0	3,191.7	3,253.2	N/A	N/A

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) Preliminary figures as of March 31, 2021 unless otherwise indicated.

(3) The following exchange average rates were applied: 2015 – MNT1,970.3 = US\$1.00, 2016 – MNT2,145.5 = US\$1.00, 2017 – MNT2,439.8 = US\$1.00, 2018 – MNT2, 467.1 = US\$1.00, 2019 – MNT2,663.5 = US\$1.00, 2020 – MNT2,849.9= US\$1.00, March 31, 2021 – MNT2,849.8 = US\$1.00.

(4) Real GDP calculated at 2010 constant prices.

(5) Nominal GDP per capita calculated at current prices.

(6) “Gross external debt” includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

## Political and Electoral System

Under the 1960 constitution, Mongolia was a single-party state in which the MPRP held a monopoly on political power. In May 1990, after the leaders of the MPRP resigned, the 1960 constitution was amended. The amended 1960 constitution legalized opposition parties, created a standing legislative body (Baga Hural, the then parliament) and established the office of the president. On July 29, 1990, Mongolia held its first multi-party election and elected representatives to the State Great Khural, Mongolia’s first freely elected Parliament.

On January 13, 1992, Parliament adopted a new constitution (the “Constitution”), which established Mongolia as an independent, sovereign republic that guarantees the fundamental rights and freedoms of its citizens and safeguards its market-based economy. The Constitution also restructured the legislative branch of the Government by creating a unicameral parliamentary legislature. The Constitution was put into force on February 12, 1992 and amended in 1999, 2000 and 2019.

On December 25, 2015, Parliament enacted a new election law which (i) replaced and integrated the existing parliamentary election law, presidential election law and municipal elections laws, (ii) set forth principles and procedural regulations for the electoral system in Mongolia, and (iii) maintained the mixed-member proportionate system. However, in April 2016, the Constitutional Court ruled that the proportional representation element of the election law breached the Constitution and repealed those provisions that provided for the proportional representation. Parliament further amended the new election law on May 5, 2016 to approve a majoritarian electoral system.

On December 20, 2019, the Parliament enacted a separate parliamentary election law to ensure proportionality and gender equality in the election campaign. An electronic voting system was also introduced to ensure an efficient and fair election. The new parliamentary election law changed the electoral system from a majoritarian system, where the majority of parliamentary seats went to the party that received the largest number of votes, to a mixed-member proportional system. A mixed-member proportional system

is designed so that each party's share of parliamentary seats is proportional to its share of votes, thereby reflecting proportionality in the overall result.

The new parliamentary election law also requires that women represent a minimum of 20% of the candidates nominated and approved for seats in Parliament.

Following the amendment to the Constitution adopted in 2019, effective from 2021, Mongolia's President is elected for a single six-year term.

The most recent parliamentary elections took place on June 24, 2020 and the most recent presidential elections took place on June 9, 2021.

## **Governmental Structure**

### ***President of Mongolia***

In Mongolia, the President is the head of state. Despite Mongolia having a parliamentary system, the President has a certain level of authority and influence in the state's governance, particularly relating to the Mongolian military and the judicial and law enforcement system. The President has the general power to appoint judges. Specifically, judges of the first instance and appellate-level courts are appointed by the President as nominated by the General Judicial Council. Judges of the Supreme Court are first presented to Parliament and appointed by the President as nominated by the General Judicial Council.

On January 15, 2021, Parliament adopted the revised Law on Courts of Mongolia to further its efforts to ensure a fair judicial system and judicial independence. Prior to the approval of this law, the President appointed the members of the General Judicial Council.

The President nominates the General Prosecutor (subject to Parliament's confirmation) and the heads of the Mongolian military. Moreover, the President is also the General Commander of the Mongolian military and heads the Security Council of Mongolia.

In addition, the President has the following powers and authorities:

- represents Mongolia and enters into international treaties with other countries on behalf of Mongolia, in consultation with Parliament. The President also has the power to elect and appoint Mongolian ambassadors (in consultation with the Parliament), and accept credentials from foreign ambassadors;
- may submit draft laws, give opinions on draft laws, veto laws or certain parts of the law (although this is then subject to a two-thirds majority of participating Parliament members accepting the veto or not);
- can call Parliamentary extraordinary sessions, give speeches in Parliamentary meetings at his or her discretion, and present proposals to Parliament on any matter. The President also has the power to dissolve Parliament if Parliament fails to appoint a Prime Minister and establish a cabinet within 45 days after a proposal for Prime Minister is submitted to Parliament; and
- can participate in the Government's cabinet meetings at his or her discretion. The President can give directions to the Government with respect to matters concerning national security or state unity (as referred to in the Constitution). However, this direction is only valid if the Prime Minister agrees to the same and signs the relevant order of the President.

The President can be removed by majority vote of all members of Parliament present at the relevant meeting if the President has breached the President's oath of office by abusing his or her power or by violating the Constitution. Mongolia has no Vice-President; therefore, in the absence, incapacity, or resignation of the President, the Chairman of the Parliament assumes the position of the President until a newly elected President is inaugurated.

Following the 2019 amendment to the Constitution, effective from 2021, Mongolian citizens who have attained the age of 50 (as opposed to the previous requirement of 45) are qualified to be elected as the President, and the President is elected to a single six-year term. Further, the amendment provides that certain powers may be granted to President only within the framework provided in the Constitution. The most recent Presidential elections were held on June 9, 2021. According to the results announced by the General Election Commission of Mongolia on June 11, 2021, the MPP's candidate, Khurelsukh Ukhnaa, won the election with 67.8% of the vote. Khurelsukh Ukhnaa is scheduled to begin serving his six-year presidential term on June 25, 2021.

### ***Executive Branch***

The Prime Minister is the head of the executive branch. The Prime Minister is nominated by the ruling party and confirmed by Parliament. They are limited to serving a four-year term. The Prime Minister chooses the members of the Cabinet. The Cabinet appoints and removes deputy ministers on the basis of the proposal of the Prime Minister and the relevant Minister.

The Cabinet is the highest executive body of Mongolia. The Cabinet is in place for a four-year term or a shorter term when it is dissolved upon either resignation of the Prime Minister or parliamentary vote for dissolution. The Cabinet is accountable to Parliament.

The main function of the Cabinet is to implement the laws of Mongolia, in accordance with its duties to direct economic, social and cultural development of Mongolia. The Cabinet has the power to, amongst other things:

- organize and ensure nationwide implementation of the Constitution and other laws;
- create and execute comprehensive policies on economic and social development, the state budget, credit and fiscal plans and the development of science and technology;
- elaborate and implement comprehensive measures on sector, inter-sector and regional development; and
- provide efficient leadership of central State administrative bodies and direct the activities of local administrations.
- On January 21, 2021, then-Prime Minister Khurelsukh Ukhnaa submitted his resignation to the Parliament of Mongolia. Following his resignation, on January 27, 2021, Parliament elected L. Oyun-Erdene as the next Prime Minister, with 87.9% of members voting in favor. On January 29, 2021, Parliament approved the new cabinet proposed by the Prime Minister L. Oyun-Erdene, which included eight new appointments and eight ministers carrying over from the previous administration.

### ***Legislative Branch***

The Parliament of Mongolia is referred to as the State Great Khural, which is the highest organ of state power. Parliament consists of 76 members elected through plurality-at-large voting for a term of four years. The most recent parliamentary election was held on June 24, 2020.

Parliament confirms the appointment of the Prime Minister. Parliament has the power to enact and amend laws, approve the annual budget, approve foreign and domestic policies, declare states of emergency and war, and ratify international treaties and agreements, among others.

Parliament elects a Chairman from its members. The Chairman serves as the speaker of Parliament, supervises the sessions of Parliament and is responsible for its voting procedures. The Chairman automatically becomes a member of the National Security Council.

Local legislatures are elected by the 21 aimags (provinces) and Ulaanbaatar, the capital city. See “— *Administrative Structure*.” The most recent local legislature elections took place on October 19, 2020, with additional voting held on October 26, 2020 in certain areas due to lack of quorum. The MPP won a majority of the seats in the local legislatures of eight out of the nine districts in Ulaanbaatar and 13 out of the 21 aimags, while the Democratic Party won majorities in the remaining district and eight aimags.

### ***Judicial Branch***

The judicial system consists of a Supreme Court, the Administrative Court of Appeals, a Constitutional Court, a Capital City Court (appellate level court), 21 aimag courts (appellate level courts), 57 intersoum courts (court of original instance) and a soum court (court of original instance). According to Article 48 of the Constitution, specialized courts such as criminal, civil, and administrative courts may be formed.

The Supreme Court, Mongolia’s highest judicial body, has the constitutional power to interpret all laws, except for the Constitution, and to review all lower court decisions on appeal. The Administrative Court is the only specialized court that reviews cases brought by individuals and legal entities against government authorities or officials to appeal any decisions made by such authorities or officials. The Constitutional Court reviews the implementation of the Constitution, determines the constitutionality of laws, regulations and decrees and governmental actions and resolves disputes concerning the Constitution. The Constitutional Court can invalidate laws, regulations, decrees, or other decisions or actions of the executive or legislative branch and international treaties entered into by Mongolia if they are deemed unconstitutional. Cases are brought to the Constitutional Court based on petitions received from Mongolian citizens, or at the request of Parliament, the President, the Prime Minister, the Supreme Court or the Prosecutor General.

The Judicial General Council deals primarily with the selection of judges, budget, financing, human resources of Mongolian courts, protection of judges’ rights and other matters concerning the independence of the judiciary. The revised Law on Courts of Mongolia was adopted by Parliament on January 15, 2021 and changed the organizational structure, composition, and procedures for appointing the members of the General Judicial Council. The General Judicial Council now consists of ten members, half of whom are judges elected by all judges’ voting through secret ballot and half of whom are appointed by Parliament.

The 2019 amendment to the Constitution also provides for a Judicial Disciplinary Committee, which can suspend or dismiss judges from their position and impose other disciplinary sanctions. A decision of the Judicial Disciplinary Committee to dismiss a judge is final, subject to the power of the Supreme Court to review and revoke such a decision if there has been a breach of procedural regulations. The revised Law on Courts also specifies grounds for imposing disciplinary measures for judges.

### ***Administrative Structure***

Mongolia is divided administratively into 21 aimags (provinces) and the capital city, Ulaanbaatar. Aimags are divided into a total of 339 soums (districts at the provincial level), which are further divided into baghs (villages, or sub-districts at the provincial level). The capital city, Ulaanbaatar, is governed as an autonomous municipality, independent of the Tov aimag in which it is located. Ulaanbaatar is divided into nine duuregs (districts), which are subdivided into 169 khoros (sub-districts).

The policies of the Government are implemented through aimag governors, who are responsible for exercising administrative control at aimag level and formulating and implementing the region’s own policies.

### ***Political Parties and Previous Elections***

After the democratic revolution, one of the first acts ratified by the Parliament of 1990 was the Law on Political Parties, which authorized the formation of multiple political parties. Prior to 1990, the unlimited political power of the current MPP was guaranteed by the 1960 constitution.

The following table sets forth the political parties in Parliament as of the date of this offering memorandum:

<b>Political Parties</b>	<b>Number of Seats</b>	<b>Percentage of Total</b>
MPP.....	62	81.6%
Democratic Party.....	11	14.5%
MPRP.....	1	1.3%
National Labor Party.....	1	1.3%
Independent.....	1	1.3%
<b>Total.....</b>	<b>76</b>	<b>100.0%</b>

## **Legal System**

The Mongolian legal system, established on the basis of the Constitution, is a civil law system primarily based on the Romano-Germanic tradition. The Civil Code itself is modeled on major continental European codifications, in particular the German Civil Code. Several multilateral and development agencies and academics from various countries were involved in the drafting of the legislation.

The main sources of law in Mongolia are: (i) the Constitution; (ii) laws known as statutes in common law jurisdictions; (iii) international treaties to which Mongolia is a party; and (iv) other types of legislative acts within the framework of laws.

The Constitution is the supreme source of law in Mongolia. The most recent amendment to the Constitution was enacted by Parliament on November 14, 2019 and came into effect on May 25, 2020. This amendment includes provisions related to the use of natural resources, the operation and mandate of Parliament, the formation and the dismissal of the government and the independence of the judiciary. One of the main changes is that the country’s land, subsoil, wealth, forests, water resources and wildlife are specified to be state public property and the benefits of subsoil resources are to be pooled into a new sovereign wealth fund, to be distributed equally to the people of Mongolia. The new sovereign wealth fund, which is separate from the existing Future Heritage Fund, has not been established as of the date of this offering memorandum.

The 2019 amendment to the Constitution also seeks to ensure stability and responsibility of the Government by specifying that members of the Government are to be appointed and dismissed by the Prime Minister rather than the Parliament. Furthermore, the Prime Minister, and only up to four members of the cabinet, may concurrently hold positions as members of Parliament.

All laws, decrees and other decisions of State bodies, as well as the activities of other organizations and citizens must fully conform to the Constitution. Under the Constitution, the international treaties to which Mongolia is a party become effective as domestic legislation upon Mongolia’s ratification or accession. Mongolia must fulfill in good faith its obligations under international treaties to which it is a party, but it shall not abide by any international treaty or other instruments incompatible with the Constitution. According to the Ministry of Foreign Affairs, Mongolia is currently a party to over 300 international treaties and conventions.

In Mongolia, legislative acts include the following acts adopted at the central level: (i) parliamentary resolutions; (ii) presidential decrees; (iii) Government resolutions and ordinances; (iv) ministerial orders and instructions; and (v) orders and instructions of Government agencies. Legislative acts also include acts adopted at the local level, namely resolutions issued by the local parliaments and ordinances issued by the governors at various levels that include the capital city, aimags, soums and districts.

Within the restrictions provided by law, local self-governing bodies have the power to make independent decisions on matters related to the socio-economic aspects of their respective territories, as well as to organize the participation of their population in solving problems of national security. Authorities of higher instance must not make decisions on matters under the jurisdiction of the local self-governing bodies. If any law or decision of a superior state organ does not specifically deal with a definite local matter, the relevant local self-governing body may independently make decisions on such local matter which must always conform to the Constitution.

In light of the 2019 amendments to the Constitution and in an effort to ensure compliance of the laws with the Constitution, Parliament approved the revised Law on Administrative and Territorial Units and their Governance on December 24, 2020, the revised Law on Presidential Election and the Law on Implementing Procedures for Law on Presidential Election on December 24, 2020, and the Law on Courts of Mongolia and the Law on Implementing Procedures for Law on Courts of Mongolia on January 15, 2021.

## **Legal Reform**

Since 1990, the Government has implemented economic reforms aimed at transforming Mongolia from a single-party planned economy into a multi-party free-market democracy. The Mongolian legal system, however, remains at a nascent stage of development, and the laws enacted by the Parliament since Mongolia undertook its transition to a market economy are often vaguely or ambiguously drafted. While Mongolia is rapidly developing, its legislative environment requires reforms in order to ensure consistency of laws, eliminate overlapping regulations and to more effectively address legal issues arising from cross-border transactions.

### ***Laws Affecting the Mining Sector***

#### *Minerals Law*

The first minerals law of Mongolia was adopted in 1997 and set out the legal basis for mining in Mongolia; it has been revised numerous times since its initial adoption. The law was revised in 2006 (as amended, the “Minerals Law”) to introduce the concept of “strategic deposits” and granted the Government the right to acquire an equity stake of up to 50.0% in an entity that holds the mining license for such “strategic deposits” if the Government had contributed to the exploration of the “strategic deposit,” and an equity stake of up to 34.0% if the Government made no contribution.

On July 1, 2010, Parliament adopted further amendments to the Minerals Law aimed at bringing small-scale miners into the mining legal framework. Pursuant to this amendment, small-scale miners may explore or extract minerals without a license. On November 25, 2010, Parliament adopted another amendment to the Minerals Law, which introduced a new surtax royalty applicable from January 1, 2011. The new surtax royalty replaced a windfall profits tax and imposed a surtax royalty on the total sales value of 23 types of minerals in addition to the standard flat-rate royalty that was previously applicable. The rates of the surtax royalty vary depending on the type of mineral, its market prices and its degree of processing. The rates are significantly higher for copper than for other types of minerals. Rates are generally lower for processed minerals as the Government wishes to encourage mining companies to engage in value-added activities within Mongolia.

Parliament adopted the State Policy on the Minerals Sector on January 16, 2014. The purpose of the State Policy is to establish a more stable investment environment, to introduce environmentally friendly, leading technology and innovation for a more sustainable and improved minerals exploration, mining, and processing capacity, to produce value added products, and to enhance the competitiveness of the minerals sector on the global markets.

Parliament amended the Minerals Law on January 24, 2014 to reduce the royalty rate from 10.0% to 2.5% with respect to the sale of gold to the Bank of Mongolia or other commercial banks authorized by the Bank of Mongolia. This amendment also removed the surtax royalty requirement. In 2014, the tendering process for minerals exploration licenses was streamlined to ensure no licenses would be granted for exploration in designated restricted areas. A new online system was also established in January 2015 for minerals exploration license applications.

In February 2015, Parliament made further amendments to the Minerals Law to allow the Government to substitute its state ownership stake in mineral deposits, including the Government’s stake in strategic deposits, in lieu of a special royalty rate. The amendment capped the special royalty rate at 5.0%.

The Minerals Law was further amended on November 10, 2016 to clarify the legal framework for mining of derivative mineral deposits, ore or stockpiles with certain content of minerals formed during extraction,

processing and concentration stages of mining activity. By specifying the legal framework for derivative mineral deposits, the amendment of the Minerals Law enabled the re-processing of the minerals stockpiles that were considered as waste previously, and increased the economic value of total extracted minerals. Under the amended Minerals Law, the rate of surtax royalty for production from derivative deposit is 0%, thereby encouraging the full utilization of extracted minerals. In connection with this amendment, on February 22, 2017, the Government adopted further regulations on granting license to mine derivative deposits and requirements for such activities.

In 2019, Parliament amended the Minerals Law to broaden the scope of persons obliged to pay mineral royalties by adding any person exporting minerals and any person selling gold to the Bank of Mongolia or a commercial bank. Prior to this amendment of the Minerals Law, the obligation to pay royalty only applied to mineral license holders.

#### *Revised Law on Petroleum (July 1, 2014)*

The Revised Law on Petroleum regulates petroleum activities as well as activities relating to non-conventional resources such as shale and methane gas. On July 1, 2014, Parliament passed the Revised Law on Petroleum, which introduced international standards and improved transparency in the petroleum industry in Mongolia with the objective of protecting investors' rights. The law also supports local development by allocating portions of license fees, royalties and commissions to the local budget.

On January 29, 2021, the Parliament adopted the Law on Supporting Oil Refinery Plant. Under this law, a state-owned oil refinery plant is to be established to operate in Altanshiree soum, Dornogobi using domestic crude oil and a pipeline to transport crude oil is to be constructed with the support of the Government.

#### *Regulations Affecting Foreign Direct Investment*

On May 17, 2012, Parliament enacted SEFIL with the aim of tightening regulations regarding foreign participation in certain strategic sectors. Under SEFIL, mining, banking and finance and media and telecommunications sectors were designated as sectors of strategic importance to the national security and economic growth of Mongolia.

In an effort to increase transparency and encourage foreign direct investment, Parliament enacted the Investment Law on October 3, 2013 with effect from November 1, 2013. The Investment Law replaced SEFIL and the Foreign Investment Law of 1993. The Investment Law removed requirements for prior Government or Parliamentary approval of any private investments in certain designated strategic sectors of Mongolia (including the banking and finance, media and communications and minerals sectors) that were previously required under SEFIL. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in one of the strategic sectors identified in the Investment Law.

The Investment Law provides for equal treatment of investors, whether domestic or foreign. It also provides for the granting of a tax stabilization certificate to any qualified investor with the aim of allowing the investor to obtain stable rates for a certain period. Qualification for obtaining such a certificate is based on the proposed investment amount, the proposed investment location in Mongolia (there is a lower minimum threshold for investment in rural areas) and the proposed industry sector of the investment. The term of a tax stabilization certificate is subject to consideration of the foregoing factors as well as other factors, including job creation, introduction of new technologies and generation of export revenue. A tax stability certificate is intended to stabilize the taxes provided for in the Investment Law during the term of the certificate.

The Investment Law also allows investors in large projects (with total investment of MNT500.0 billion or more) to enter into an investment agreement with the Government, which is expected to provide such investors with greater coverage beyond the tax stability coverage under the tax stabilization certificate. On February 21, 2014, the Government adopted "The Regulations for Entering into an Investment Agreement" by its Resolution No. 52.

### *Law on Accession to Safety and Health in Mines Convention*

Parliament enacted the Law on Accession to Safety and Health in Mines Convention on July 3, 2015, under which Mongolia became a party to the Safety and Health in Mines Convention (an International Labor Organization Convention).

### *The State Policy on Energy*

The State Policy on Energy was adopted by Parliament on June 19, 2015. The main objectives of this policy are to ensure an uninterrupted and reliable supply of energy to meet the increasing energy demands of Mongolia and to transform Mongolia into an energy exporting country. The policy reviews the existing energy position and identifies the main policy direction, the key principles, and the strategic goals for each main direction and the objectives under each goal. The policy is expected to be implemented in two phases (between 2015-2023 and 2024-2030).

The Government expects to review its tariffs and pricing policy to move towards free market principles. The Government intends to promote financial independence for power producers and expects to revise its tariffs accordingly.

### *Energy Laws*

In line with the State Policy on Energy, Parliament also amended the Law on Energy and the Law on Renewable Energy on June 19, 2015. The amendments to the Law on Energy introduced important concepts such as methane gas (as a type of energy) and participation of private sector in the energy industry, and clarified the roles and responsibilities of the relevant Government agencies to improve regulation of the energy sector. The amendments to the Law on Renewable Energy also addressed issues relating to subsidized renewable energy tariffs to support the production and supply of renewable energy, and broaden the powers of the Energy Regulatory Commission in this regard.

On November 26, 2015, Parliament adopted the Law on Energy Conservation which provides incentives to business entities to improve energy efficiency and requires certain energy consumers to implement measures to promote the efficient use and conservation of energy.

The Law on Renewable Energy was further amended on June 6, 2019, and changes included amendments to the level of tariffs for energy generated by solar and wind power, the introduction of competitive procurement for renewable energy projects, and the introduction of project-implementation guarantees.

### *Environmental Laws*

In 2009, Parliament passed the Law on Prohibition of Minerals Exploration and Mining in Protected Areas of Headwaters of Rivers, Water Basins and Forested Areas and the Law of Mongolia on Procedures for Implementing the Law on Prohibition of Minerals Exploration and Mining in Protected Areas of Headwaters of Rivers, Water Basins and Forested Areas ( the “Implementation Law”) to limit environmental damage caused by mining in and around headwaters of rivers and lakes, protected water basin areas and forest basin areas. Licenses to explore or mine mineral resources located at a distance of not less than 200 meters from a water or forest resource were required to be retroactively revoked or modified within five months of the enactment of this law. Affected license holders were allowed to claim compensation from the Government for exploration expenses incurred or revenue lost from actual mining operations. However, the costs associated with rehabilitating the environment were to be deducted from such compensation. In June 2011, the Ministry of Mining (presently the Ministry of Mining and Heavy Industry) announced its intention to initiate revocation on a gradual basis of approximately 1,800 mineral licenses beginning with the revocation of 243 gold exploration and mining licenses. Subsequently, on February 18, 2015, Parliament amended the Implementation Law. This amendment permitted holders of licenses revoked under the earlier version of the law to apply to the Mineral Resource and Petroleum Authority of Mongolia to resume activity within three months of effect of the amendment. The Ministry of Environment and Tourism, the Mineral Resource and Petroleum Authority of Mongolia and the governor of each respective aimag may contract with the license holder with regard to reinstating the licenses and resuming mining activities.

On May 17, 2012, Parliament consolidated 18 existing environmental laws with eight new laws and introduced two new laws. Laws that were amended include the Law on Environmental Protection, the Law on Environmental Impact Assessment, the Law on Forest (the “Forest Law”) and the Law on Water (the “Water Law”). Parliament also adopted the Law on Natural Resources Use Fee and the Law on Water Pollution Fees. These laws were officially enacted or amended in May 2012 and came into effect in June 2012.

The main objectives of the Law on Environmental Protection is to reduce duplication and improve the quality of regulation, ensure responsible, environmentally-friendly and sustainable development, improve economic efficiency, introduce international standards in environmental auditing, introduce the “polluter pays” principle, increase public participation in environmental decision-making and secure funds for environmental protection. Polluters are now liable for damage caused to the environment and natural resources. Their liability depends on the amount of environmental damage caused to the natural resource and is determined by an environmental assessor. A fine of two to five times the intrinsic value of the resource may be levied on the polluter. Each type of natural resource is assigned an intrinsic value, which may differ between the different regions in Mongolia. The monies collected from the enforcement of the polluter pays principle are to be used to remedy the environmental damage.

The revised Forest Law imposes certain obligations on business entities which use forest resources and regulates their activities. The revised Water Law, the Law on Natural Resources Use Fee and the Law on Water Pollution Fees set out rules regarding the industrial use of water resources. Under the revised Water Law, a person who wishes to use water for industrial purposes must obtain a water use permit, enter into a water use agreement with the relevant Government body and pay fees for using and, if applicable, for polluting and diminishing water resources.

On May 12, 2017, Parliament passed the Revised Law on Waste which was adopted to address the increase of waste as a result of the increase in population concentrations and the development of new service industries. The Revised Law seeks to address issues such as state support of recycling and clarify requirements for entities engaging in waste activities as well as the consequences for breaches of the law.

### ***Laws Affecting Property Rights and Urban Development***

Under Mongolia’s Constitution, land is the property of the State. Private ownership is limited to designated plots of land granted to Mongolian citizens by the Government and all land-related transactions must be authorized by the relevant State authority. State-owned and privatized land have different permitted uses and regulations regarding what entities or individuals may use or own the land. Mongolian citizens and companies (excluding foreign invested companies) may be granted licenses for possession of land which are valid for up to 60 years and renewable for an additional 40 years. Land use licenses which specify the permitted usage of the relevant land may be obtained by foreign legal or natural persons (such as international organisations, foreign states, legal entities and citizens of foreign countries) in addition to Mongolian entities and citizens. Land use licenses may be issued for a defined time period and are renewable.

The Land Law, the Urban Development Law, the Law on Redevelopment of Cities and Settlement Areas and the Housing Law are the main laws that govern urban planning and land ownership, possession and use. The Government is currently considering revisions to these laws to further promote urban development, city planning and land compensation for relocation.

### ***Laws Relating to Fiscal Policy***

#### ***Budget Law***

Parliament adopted the Budget Law on December 23, 2011, which became effective on January 1, 2013. The most significant change introduced by the Budget Law is greater decentralization by clearly defining delegated functions among provincial and local governments. The Budget Law establishes budgeting principles and scope, clarifies expenditure and revenue categories, specifies the responsibilities of the bodies that participate in the budgeting process and improves budget transparency and accountability.

### *Amendments to the Budget Law*

With the passage of the Debt Management Law on February 18, 2015, the Budget Law was amended to reflect a new regime for managing Government debt and Government guarantees. These amendments require Government guarantees and foreign loans guaranteed by the state budget to be included in the state budget, which must be approved and ratified by Parliament annually. These new requirements increased the level of control and supervision over the state budget and disbursements of the proceeds from Government bond issuances. For example, beginning in 2015, the annual budget includes a list of projects funded by DBM that are intended to be refinanced by the state budget.

The Budget Law was further amended on October 30, 2015. According to this amendment, the Ministry of Finance was granted the authority to execute agreements accepting foreign grants and aid on behalf of the Government of Mongolia with a specific authorization from the Government.

The Budget Law was amended on November 10 and November 26, 2015. According to the amendment made on November 10, 2015, fully and partly state and locally owned legal entities must submit their annual financial statements to the state auditing body by February 15 and submit their audited financial statements to their respective general budget governors and the Ministry of Finance by March 15. Additional minor technical amendments to the Budget Law were also made on November 10 and November 26, 2015.

The Budget Law was further amended on September 9, 2016, which involved certain minor changes with regards to the powers of authorities that determine the budget allocation. The Budget Law was further amended on April 14, 2017 in order to improve budget discipline, stability and efficiency as part of the requirements for the implementation of the IMF's extended fund facility. The amendments made to the Budget Law require "Build and Transfer" concession items to be approved by Parliament as part of the state budget and revenue from the privatization of State property to be recorded as a source of financing of the budget deficit as opposed to income of the state budget. Additional minor technical amendments to the Budget Law were also made in 2018 and 2019.

The Budget Law was further amended five times in 2020 and once in 2021. Amendments adopted on November 13, 2020 introduced livestock taxation, which had been exempted from taxable income under the Personal Income Tax Law, with the goal of improving management and conservation of pasture, increasing water sources for the pasture and agriculture industry, preventing livestock from disease, and protecting the environment in general. Under amendments made on December 24, 2020, certain income from taxation was transferred from the state budget income to the income of provincial and capital city governments, including 40% of corporate income tax income and the transfer of certain taxation income from provincial and capital city governments to the soums and districts, such as land fees and personal income tax income in relation to the approval of the amendments to the Constitution and the revised Law on Administrative and Territorial Units and their Governance. This amendment will be effective from January 1, 2022.

### *Fiscal Stability Law*

On June 24, 2010, Parliament approved the Fiscal Stability Law, which became effective on January 1, 2013, and has been amended from time to time. The Fiscal Stability Law provides for medium to long term policies aimed at establishing a sound legal environment for the formulation and implementation of economic and fiscal policies.

Specifically, the Fiscal Stability Law establishes special budgetary requirements and fiscal management principles to stabilize the budget process. The special budgetary requirements, as originally established, are as follows: (i) budget revenue shall be calculated on a balanced basis; (ii) the budget deficit of any given year shall not exceed 5.0% of GDP in 2015, 4.0% of GDP in 2016, 3.0% of GDP in 2017 and 2.0% of GDP from 2018; (iii) the growth rate of the total expenditure of the budget shall not exceed the higher of the growth rate of nominal non-mineral GDP for the given year or for the preceding 12 months; and (iv) the government's debt balance ("Government Debt Ceiling") calculated at net present value shall not exceed 60.0% of GDP in each year. The Government Debt Ceiling is 58.3% of GDP for 2015, 55.0% of GDP in 2016, 50.0% of GDP in 2017 and 40.0% of GDP in 2018.

“Government Debt” includes (a) debt instruments issued by the Government of Mongolia, aimag or capital city payable to others; and (b) payments due under a Government debt guarantee incurred by law or contract. The Government’s net present value debt to GDP ratio is 62.3% for 2020 and expected to be 59.9% for 2021. However, Government debt guarantees backed or secured by domestic Government bonds are excluded from the calculation of this Government Debt Ceiling.

The Fiscal Stability Law also creates a fiscal stability fund (“FSF”) with the aim of ensuring medium and long term stability of the unified budget of Mongolia. The FSF was established in 2010 and is financed by various sources, including mining sector revenue in excess of that estimated in the budget, net budget surplus, the residue of the Government’s reserve and risk funds of a given year, the net profit of the FSF and any other income that is distributed by Parliament. Under the Fiscal Stability Law, a portion of the savings generated by the FSF may be used to finance domestic and foreign investments. In particular, the Government is allowed to use this money to purchase long-term securities issued by DBM. Article 16 of the Fiscal Stability Law, which regulates the FSF, was revised and approved by Parliament on April 14, 2017 and will take effect from January 1, 2024.

In connection with Mongolia’s commitments to the IMF in connection with the EFF program, the Fiscal Stability Law was further amended on April 14, 2017 to re-define the target level for the budget balance for the period from 2017 to 2023. Amendment to the Fiscal Stability Law provided that the budget deficit limit shall not exceed 10.4% of GDP in 2017, 9.5% in 2018, 6.9% in 2019, 5.1% in 2020, 3.6% in 2021, 2.8% in 2022 and that it must be below 2.0% of GDP starting from 2023. The 2017 amendments to the Fiscal Stability Law will not take effect until 2024, as part of Mongolia’s commitments to the IMF in relation to the distribution of the EFF. The FSF is currently regulated by the Law on Government Special Funds, and will be regulated by the Fiscal Stability Law starting from January 1, 2024. Pursuant to the Law on Suspension and Postponement of Certain Special Budget Requirements, which was approved by Parliament on August 28, 2020, in response to the COVID-19 pandemic, compliance with the limit on the budget deficit set forth in the Fiscal Stability Law was postponed until 2021.

#### *Debt Management Law*

On February 18, 2015, Parliament approved the Debt Management Law, which includes procedural guidance regarding how the Government incurs and manages its internal and external debt. The Debt Management Law redefined external state debt, Government debt and Government guarantees such that only debt incurred by the Government of Mongolia, aimags and the capital city, and payments under Government debt guarantees under law or contract would be included when calculating the revised debt ceilings under the Fiscal Stability Law. It also clarified the grounds on which the Government is permitted to incur debt as follows:

- financing the budget deficit;
- financing quarterly budget deficits;
- supporting the domestic market for Government securities;
- re-financing debt;
- financing state investment programs;
- increasing the official net foreign reserves of the Bank of Mongolia for the purpose of facilitating the balance of payments; or
- recapitalizing banks by the Government in accordance with the Law on Ensuring Banking Sector Stability.

The Debt Management Law states that the Government is permitted to issue a debt guarantee to DBM, state-owned entities and legal entities with domestic investment registered in Mongolia. Furthermore, Government guarantees may be provided for the full amount of borrowings by DBM or up to 85.0% of

borrowings by other eligible entities. However, if the obligor holds domestic Government bonds, the Government guarantee may be provided up to the equivalent amount of domestic Government bonds held by the obligor.

The Debt Management Law also establishes procedures for managing Government debt and Government debt guarantees, including guarantee fees payable to the Government, documentation requirements for Government debt guarantees, annual risk assessment of Government-guaranteed debt by the Ministry of Finance, notice and other procedural requirements in the event that a Government guarantee is called, and the establishment of a debt guarantee fund for payments due under the Government guarantee agreements with the relevant obligor and creditor.

The Debt Management Law allows the Government to issue government securities in international markets for the purposes of re-financing a budget deficit, re-financing debt, financing state investment plans, and increasing the foreign reserves of the Bank of Mongolia in support of the balance of payments. Such international issuance must also meet the following requirements:

- the issuance must be specified in the relevant year's budget law;
- the amount of the issuance must be within the debt ceiling of the relevant fiscal year approved by Parliament; and
- the issuance must conform to the relevant strategy document.

Government securities are to be classified as either short-term with a maturity of less than a year, mid-term with a maturity of one to five years, or long-term with a maturity of more than five years.

#### *Amendments to the Debt Management Law*

The Debt Management Law was amended on September 7, 2016 to prohibit the issuance of municipal and provincial securities. The latest amendment made to the Debt Management Law was approved by Parliament on November 13, 2019, removing the ability of the Ministry of Finance to form a Government debt-guarantee fund or provisions relating to Government debt guarantee funds.

#### *Law on Development Policy, Planning and Management*

On May 7, 2020, Parliament adopted the revised Law on Development Policy, Planning and Management. This law is intended to ensure the stability and continuity of development policy and planning, determine principles of development policy and planning at the national level, create a consolidated and optimal system for drafting, planning, effective implementation, monitoring and evaluation and reporting of development policy, determine the rights and responsibilities of the relevant parties; and ensure partnership among policy developers. This law aims to ensure that Mongolia's national development policies will continue to be implemented consistently, even upon changes in the Government administration. Under this law, political parties must develop action plans within the framework of the development policy and planning documents approved by the Parliament. The law took effect on January 1, 2016.

To comply with the Law on Amendments to the Constitution of Mongolia enacted on November 14, 2019, Parliament adopted the revised Law on Development Policy, Planning and Management on May 7, 2020. The Law on Development Policy, Planning and Management focuses on:

- determining principles for the nationwide development policy and planning;
- establishing the development policy;
- maintaining effective implementation and evaluation-monitoring procedures; and
- providing a unified system of information as well as defining the rights and duties of participants in the policy and planning process.

The revised Law on Development Policy, Planning and Management broadens the participants in the establishment of development policy and planning, which includes the President, legislative branch, executive branch, the National Development Agency, the Bank of Mongolia, local governing authorities, political parties and the private sector.

### ***Law on the Government Special Funds***

The revised Law on the Government Special Funds was enacted by Parliament on November 13, 2019. The purpose of the Law on the Government Special Funds is to determine the types of specific funds of the Government and to regulate relations with respect to the creation and disposal of the funds as well as reporting and monitoring of performance. The revised Law on the Government Special Funds provides for 23 different types of Government special funds.

### ***Laws Relating to the Banking Sector***

#### *Central Bank Law*

The Law on Central Bank (the “Central Bank Law”), enacted on September 3, 1996 and amended on October 20, 2011, established the legal framework for the operations of the Mongolian Central Bank (also referred to as the Bank of Mongolia). The Bank of Mongolia was established in 1924 and its main objective is to ensure the stability of the national currency. Its primary activities are: (i) issuing and regulating the national currency; (ii) formulating and implementing monetary policy; (iii) setting the amount and proportion of compulsory reserves of banks; (iv) granting credit to banks; (v) issuing banking licenses; (vi) supervising the operations of Mongolian commercial banks; (vii) holding and managing the state reserves of foreign currencies; (viii) facilitating interbank settlements; and (ix) regulating foreign currencies.

The Central Bank Law was amended in January 2018. The amendment seeks to ensure the Bank of Mongolia’s independence from the Government and brings the decision-making process of the Bank of Mongolia in line with international best practices. In particular, the amended Central Bank Law provides that decisions relating to implementation of monetary policy and supervision of banks must be discussed by the relevant committees within the Bank of Mongolia, and budgetary activities which are not relevant to the objective or main activities of the Bank of Mongolia need to be minimized.

Following the Amendments to the Banking Law, the Central Bank Law was amended on January 19, 2021 to prohibit any interference in or influence to the implementation of the inspection powers and functions of the Bank of Mongolia and its inspectors.

Under the Central Bank Law, the Bank of Mongolia may employ the following methods in implementing the monetary policy:

- setting capital and reserve requirements to be maintained by commercial banks;
- providing loans to banks through different financial instruments;
- implementing the unified policy on interest rates;
- conducting open market operations; and
- setting limits on the balance of loans provided by banks.

Open market operations by the Bank of Mongolia include the issuance, purchase and sale of Central Bank bills, and sale and purchase of government bonds, asset-backed securities and such other securities the Bank of Mongolia is permitted to engage in the monetary market. Further, the Bank of Mongolia may provide short-term loans to the Government payable within the same fiscal year and purchase short-term, government-issued securities. In all other cases, however, the Bank of Mongolia is prohibited from providing direct or indirect loans to the Government and purchasing short or long-term government-issued securities

in the primary or secondary markets. The Central Bank Law also prohibits the Government from providing directions to the Bank of Mongolia or entering into agreements on matters that are not specified by law.

The board of directors of the Bank of Mongolia is the monetary policy arm, which consists of the Governor, the First Deputy Governor, the Deputy Governor and a number of departmental directors. The Governor may also attend parliamentary sessions, standing committee meetings and meetings of cabinet ministers and be consulted on issues related to the Mongolian banking sector.

The Bank of Mongolia uses central bank bills, repurchase/reverse repurchase transactions and overnight facilities to achieve policy targets. The Governor decides the amount of liquidity absorbed from or injected into the interbank market on a weekly basis.

With the adoption of the Debt Management Law in February 2015, the Bank of Mongolia is now also responsible for jointly preparing and publishing the balance of state external debt of Mongolia on a quarterly basis with the Ministry of Finance.

The Bank of Mongolia also issues regulations on prudential ratios, minimum share capital requirements and other matters applicable to commercial banks.

#### *Bank Deposit Insurance Law*

Parliament adopted the Bank Deposit Insurance Law on January 10, 2013. According to the Bank Deposit Insurance Law, Mongolian banks that are licensed to take deposits and collect bank service related fees or conduct payment settlement services are required to join a deposit guarantee scheme and pay applicable deposit guarantee fees to insure deposits placed with them. Coverage of deposits is limited to a maximum of MNT20.0 million per depositor and is available to depositors in the event that the Bank of Mongolia requires the compulsory liquidation of the licensed bank holding their deposits.

#### *Law on the Development Bank of Mongolia*

On February 10, 2011, Parliament approved the first Law on the Development Bank of Mongolia which provides the legal framework for the establishment and operation of DBM. DBM is mandated to finance large-scale development projects and programs to improve living standards in Mongolia and enhance Mongolia's economic competitiveness. On February 10, 2017, Parliament approved the Revised Law on the Development Bank of Mongolia (the "Revised DBM Law"). The Revised DBM Law aims to strengthen DBM's governance and independence and to enable DBM to focus on commercially viable projects. It also includes provisions which increase (i) oversight from the Bank of Mongolia, (ii) transparency and (iii) accountability. The Revised DBM Law came into force on April 1, 2017.

The Revised DBM Law further clarifies the relationship between Parliament and the Government as regards the operations of DBM, encourages prudent governance, increases oversight of DBM's lending operations, reduces financing obtained from the Government and increases independence from the Government. The Revised DBM Law is expected to more clearly delineate the decision making process and authority of the Government and DBM. As a result, DBM expects to change its business model in the future to reduce its lending. See "*Monetary and Financial System—Financial System—The Development Bank of Mongolia.*"

#### *Law on Ensuring Banking Sector Stability*

On June 22, 2018, Parliament enacted the Law on Ensuring Banking Sector Stability as one of the measures addressing the re-capitalization of the banks with capital shortfall. The purpose of this law is to enable the re-capitalization of commercial banks with state funds, in the form of cash or government bonds.

The Ministry of Finance is the authorized body under the Law on Ensuring Banking Sector Stability to manage and oversee the state funds invested in the banks for the purpose of recapitalization. The state fund invested in a bank must be repaid to the state budget in accordance with a plan that is to be approved by the Minister of Finance on consultation with the Governor of the Bank of Mongolia.

Following the Amendments to the Banking Law, the Law on Ensuring Banking Sector Stability was amended on January 19, 2021, and the definition of “systemically important bank” was changed to be the same as that specified in the Banking Law. Previously, the definition was contained in the Law on Ensuring Banking Sector Stability and now both laws use the same definition.

#### *Approval of Strategy to Reduce Loan Interest Rates*

On August 28, 2020, Parliament approved the Strategy to Reduce Loan Interest Rates to be implemented between 2020 to 2021. Under the Strategy to Reduce Loan Interest Rates, Parliament approved the following strategic directions for the reduction of loan interest rates:

- create a stable macro environment to reduce expenses for loan resources;
- reduce costs of loan risk;
- reduce operating costs of banks; and
- develop the domestic stock market, create competition and reduce costs of financing.

The Government, the Bank of Mongolia, the Financial Regulatory Committee and the Deposit Insurance Corporation are obliged to implement the approved strategic directions.

#### *Amendments to the Banking Law*

On January 29, 2021, the Parliament adopted the Law on Amendments to the Banking Law and the Law on Procedures for Implementing the Law on Amendments to the Banking Law. These laws entered into force on February 25, 2021. These amendments aim to reduce the concentration of banks’ shareholders, improve the structure and quality of banks’ capital by encouraging new investment, increase risk tolerance and strengthen banking supervision and restructuring measures. These amendments require systemically important banks (a term introduced to the Banking Law for the first time) to become publicly listed companies and require other banks to become either open or closed joint stock companies by June 30, 2022. Furthermore, pursuant to these amendments, no individual, solely or together with its related persons, may own more than 20% of the total issued shares and securities considered to be shares of a bank. Banks are required to comply with this provision by December 31, 2023. This restriction does not apply to state-owned banks established by the Government, special purpose banks or in respect of state ownership of banks that are recapitalized by the state. The amendments also changed the priorities in payments of claims upon an insolvency event of banks. The changes were made to protect consumers’ rights and interests ahead of those of bank shareholders.

#### *General Administrative Law*

On June 19, 2015, Parliament enacted the General Administrative Law, which took effect on July 1, 2016. The purpose of this law is to reform the legal framework for regulating actions taken by administrative agencies or decisions, norms, actions, and agreements issued or taken by administrative agencies under public laws that affect citizens and legal entities. The law establishes procedures for the issuance of administrative decisions, acts, rules, and agreements. In addition, it establishes a mechanism for complaints against administrative actions for citizens and legal entities.

In connection with the enactment of the General Administrative Law, Parliament passed a revised Law on Administrative Procedure on February 4, 2016 which also took effect on July 1, 2016. The revised Law on Administrative Procedure provided further guidance on which administrative bodies and officials are subject to the jurisdiction of the administrative courts, introduced strategic or public interest litigation, and introduced special procedures for administrative acts or decisions with a broader or national impact and for disputes relating to elections and public procurement. Since its approval in 2015, the General Administrative Law has been amended a number of times to expand and clarify its scope.

#### *Law on the Future Heritage Fund*

Under the Law on the Future Heritage Fund, approved by Parliament on February 5, 2016, a sovereign wealth fund for the benefit of current and future generations will be created and financed from a certain portion of the taxes imposed on the mining sector (the “Fund”). The Fund will be managed by the Future Heritage Corporation, a wholly state-owned entity, in line with an investment mandate approved by the Minister of Finance and an investment strategy approved by the board of directors of the Future Heritage Corporation. The law provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation, will be made from the Fund until 2030, and investments may only be made into portfolios outside of Mongolia. The law came into effect on January 1, 2017.

### ***Measures against Corruption and Bribery***

Corruption and bribery are key threats to Mongolia’s economic growth and democratic governance. In an effort to address concerns regarding corruption and bribery, the Government has instituted a variety of measures and participates in international anti-corruption conventions, regimes and protocols, such as the Anti-Corruption Plan of the ADB and the United Nations Convention Against Corruption.

In July 2002, Parliament enacted the National Program to Combat Corruption. In 2005, the Government collaborated with the United Nations to attain goals established by the United Nations Convention Against Corruption. In July 2006, Parliament enacted the Anti-Corruption Law. The Anti-Corruption Law provides for the establishment of an independent anti-corruption agency with its own structure, special powers and functions. In 2007, the IAAC was established to educate the public, take measures to prevent corruption, examine the property and income declarations of officials and investigate corruption crimes. However, the Prosecutor General is in charge of taking the alleged corruption crimes to court. Within the framework of preventing corruption, the IAAC completed an anti-corruption training program throughout every government unit. Under the Anti-Corruption Law, members of Parliament and high-ranking public officials are required to declare their income and assets within 30 days of being elected. In November 2016, Parliament adopted a new National Program to Combat Corruption. On April 12, 2017, the Government approved a plan to implement this program, setting out detailed actions and measures to combat corruption in two phases: the first phase in 2017-2019 and the second phase in 2020-2023. The new National Program to Combat Corruption aims to prevent corruption by increasing the transparency of public services, appointment of civil servants and financing of political parties and elections, and increasing the transparency and independency of judicial and law enforcement authorities. It also aims to improve the management and oversight of public finances, including budget funds and proceeds from offshore loans. In addition, it aims to increase cooperation with the international community to combat corruption and implement recommendations and guidelines issued by relevant international organizations.

On January 19, 2012, the Parliament of Mongolia adopted the Law on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest (the “CIL”) as a further step in Mongolia’s fight against corruption. The CIL came into effect on May 1, 2012. The CIL aims to prevent conflicts of interests arising from an official’s carrying out of public duties and his or her own private interests, and to regulate and monitor conflicts of interest in order to ensure that public service activities accord with the public interest and that transparency and faith in public services are maintained. The key features of the CIL are that it (i) provides a definition of “public official” and his/her related and affiliated persons; (ii) requires public officials to make declarations in respect of no conflicts of interest, and public officials and nominees for public office or public official roles to make declarations in respect of their private interests; (iii) introduces a number of restrictions applicable to public officials during their term of office/service and following their release from public office/service; and (iv) deems agreements, contracts or licenses that were entered into or obtained in breach of law to be void. The CIL imposes a number of obligations and prohibitions on public officials during their term of office and two years after stepping down from public office or public service. A public official must also file a private interest declaration, which shall be accessible to the public, within 30 days of appointment or election into office and annually (by February 15 of each year) during his/her term of office/service.

On April 13, 2017, Parliament passed an amendment to the CIL with respect to offshore bank accounts in response to the growing incidents of officials allegedly linked to offshore bank accounts and companies. The amendment introduces a new provision which places a prohibition on public officials that file personal asset declarations and their affiliated entities from opening offshore bank accounts in their names, owning

movable and immovable properties and incorporating legal entities in an offshore jurisdiction, except in certain circumstances upon notice to the IAAC. The Government will determine which countries are in an offshore jurisdiction for purposes of the CIL. The amendment also requires electoral candidates and their affiliated entities to disclose any offshore bank accounts, properties and legal entities in their name and in the event of their election or appointment, to close the relevant offshore bank accounts, retract any placed assets, dispose of any relevant property rights as well as dispose of any rights in any incorporated legal entities within three months of such election or appointment. Breach of these provisions may constitute grounds for dismissal of the public official.

In January 2017, the IAAC commenced investigative proceedings in relation to previous findings of the working group established by the Joint Standing Committees (as described below) in January 2015, which alleged abuse of power and misappropriation of state funds or funds of DBM by certain former members of management of DBM. See “—*Draft Parliamentary Report.*” These former members of DBM management include Munkhbat. N, former chief executive officer, Shinebaatar. B, former chairman of the board of directors and Otgonchuluu. Ch, a former member of the board of directors. Their cases are currently pending at the Court of First Instance for Criminal Cases of Sukhbaatar District. In 2019, during press conference held by the IAAC, the IAAC representative stated that there are a number of on-going cases regarding the financing of DBM and the loans it issued, including involvement of a former minister in one of the cases. In addition, in February 2016, the investigation of a case involving the chairperson of the board and the executive director of DBM receiving an apartment worth MNT27.5 billion (US\$11.1 million) from Trade and Development Bank of Mongolia LLC has been completed and was transferred to the prosecutor’s office.

### ***The AML Law***

The Law of Mongolia on Combating Against Money Laundering and Terrorism Financing (the “AML Law”) was adopted by Parliament on May 31, 2013, replacing similar legislation adopted in 2006. The purpose of the AML Law is to combat and prevent money laundering and terrorist financing by requiring Mongolian banks and certain other entities, including investment funds, real estate agencies and public notaries, to report “suspicious transactions” to the Financial Intelligence Unit (an affiliate organization of the Bank of Mongolia with the specific responsibility of combating money laundering and terrorist financing activities).

Although not defined explicitly, a transaction that is suspected or is known to have any connection to money laundering, terrorist financing or income gained through a crime is considered a “suspicious transaction” and permits the Financial Intelligence Unit to suspend and investigate such transactions. The AML Law clarified definitions of politically exposed persons, ultimate beneficial owners and specially controlled transactions. The AML Law imposed obligations on such financial institutions to have their customers verified with “know your customer” procedures. The AML Law introduced new concepts including “politically exposed persons,” “ultimate (beneficial) owner,” and “shell banks.” It also broadened the scope of the anti-money laundering activities by subjecting more institutions, such as public notaries, investment funds and real estate agencies, to the reporting obligations (“Reporting Entities”).

Further, the AML Law created the Financial Intelligence Unit at the Bank of Mongolia, which was mandated to collect and analyze information received from Reporting Entities and monitor implementation of the AML Law. Under the AML Law, Reporting Entities have an obligation to (i) verify customer information in certain circumstances, including prior to entering into monetary transactions, (ii) regularly report those transactions that exceed MNT20.0 million (approximately US\$7,000), (iii) strictly and closely monitor those transactions that require increased scrutiny, such as transactions made by or on behalf of politically exposed persons, and (iv) develop and implement internal monitoring programs to ensure compliance with the AML Law.

Furthermore, Mongolian banks are prohibited from opening accounts at so-called “shell banks,” defined under the AML Law as banks whose executive management and operations are not physically present in the jurisdiction where it was licensed or registered, or banks that do not belong to financial institutions that are subject to specially regulated or central inspection, and are obliged to verify foreign banks prior to opening bank accounts.

On April 26, 2018, Parliament approved comprehensive amendments to the AML Law for the purpose of improving the regulatory framework for combating money laundering and terrorism financing. The

amendments came into effect from July 1, 2018. The amendment broadened the scope of Reporting Entities, where legal and business consulting service providers which undertake the following transactions on behalf of its client are also included:

- sale and purchase of immovable properties;
- management of client assets;
- establishment of legal entities, management of operation, transactions of the client or sale of legal entities;
- organization of a fund-raising or establishment of a company and its operations; and
- management of bank accounts, deposit or securities of the client.

The key features of the amendments include: (i) expanding the scope of combating and preventing terrorism financing to include combating and preventing weapons of mass destruction proliferation; (ii) clarifying definitions used in the law; (iii) expanding the scope of reporting entities by including investment management companies, law firms and accounting and financial advisory firms if such entities conduct certain transactions on behalf of clients; (iv) providing clear guidelines on determining beneficial owners, the know-your-customer procedures and internal monitoring procedures employed by reporting entities; (v) imposing additional obligations in respect of high-risk customers; and (v) implementing sanctions lists issued by the United Nations Security Council and other relevant authorities.

The amendments to the AML law also establish the National Council, comprised of representatives of prosecution agencies, the Bank of Mongolia, the FRC, the Ministry of Finance, the Ministry of Justice and Foreign Affairs, law enforcement and counter-terrorism authorities, tax and customs authorities and the Financial Information Unit. The Council's mandate is to formulate national programs for combating money laundering and terrorism financing and submit such programs to the Government for approval and undertake measures to implement the approved programs. Further, the Governor of the Bank of Mongolia is tasked with approving regulations concerning specific matters related to combating money laundering and terrorist financing, which includes procedures for determining beneficial owners, know-your-customer procedures and an internal monitoring program. The amendments aim to strengthen the existing regulatory and institutional framework for combating money laundering and terrorism financing and bring the AML Law in line with international best practices. Further minor amendments were made to the AML Law in 2019 and 2020.

Following the 40 Recommendations of the Financial Action Task Force ("FATF"), Mongolia amended its Criminal Code to hold legal entities liable. Accordingly, both individuals and legal entities may be subject to criminal prosecution under the Criminal Code, which was enacted on December 13, 2015 and took effect from July 1, 2017.

### **Draft Parliamentary Report**

In January 2015, the Parliamentary Standing Committee on Economic Affairs and the Parliamentary Standing Committee on Budget Affairs (together, the "Joint Standing Committees") established a working group, consisting of members of Parliament representing the Justice Coalition, Democratic Party, MPP and an independent Parliament member, to prepare a report regarding the use of proceeds from the US\$1.5 billion bonds issued in November 2012, consisting of the US\$500.0 million bonds due January 2018 (which were repaid in January 2018) and US\$1.0 billion bonds due December 2022 (together, the "2012 Government Bond Issuances") and other bond offerings by DBM.

A preliminary draft of this report, which had not received the required majority support to be formally presented to the Joint Standing Committees, was leaked to the news media by several working group members in November 2015. The draft report contained allegations regarding the manner in which the proceeds of the 2012 Government Bond Issuances and the ¥30.0 billion bonds due 2023 issued by DBM were disbursed by the Government and DBM to fund development projects in Mongolia, and included

claims, among others, that certain projects were funded without appropriate authorizations and not in compliance with the Development Bank Law, applicable construction laws, public procurement laws and other laws and regulations, including those relating to the necessary preparatory works, consents and authorizations required to finance projects using these bond proceeds.

DBM, with the support of the Ministry of Finance, has contested the allegations in the draft Parliamentary report. At the meeting held by the Joint Standing Committees in December 2015, the draft report had not yet been finalized and discussion of the draft report by the working group, which was established in 2015, and Joint Standing Committees was postponed. The draft report has not been presented to Parliament.

In August 2016, the Government formed a working group to replace the working group established in 2015 to assess and evaluate the current operations, financial position, lending practices and future challenges of DBM. The report from this working group recommended that DBM improve its: (i) corporate governance and independence; (ii) internal audit and supervision through consultation with the Bank of Mongolia; (iii) financial health and prudential ratios by way of a capital injection; and (iv) lending practices with better evaluation of potential projects.

Subsequently, pursuant to Parliament Resolution No. 81 dated December 28, 2016, DBM transferred its loan portfolio to be repaid from the state budget to the Ministry of Finance and the Government provided a capital injection of up to MNT1.0 trillion to DBM.

The 2013 audit report issued by the National Audit Office, the highest state organization responsible for conducting financial, performance and compliance audits of state organizations, stated that feasibility studies for the Tavan Tolgoi power plant project and railway project had not been finalized, and that the blueprints and the budget proposal for the development of roads in and around Ulaanbaatar had not been finalized prior to the provision of financing. The 2015 audit report by the National Audit Office set forth the following five recommendations to the Prime Minister regarding DBM and project financing: (i) ensure Parliamentary approval is obtained for a list of projects and programs at each spring session of Parliament; (ii) consolidate interest from projects financed by the proceeds of the 2012 Government Bond Issuances to be repaid by the state budget into the state budget; (iii) manage risks associated with depositing unallocated funds deposited at local commercial banks to ensure availability for withdrawal; (iv) ensure compliance with the Development Bank Law and National Security Council recommendations in selecting projects to be financed by DBM; and (v) improve oversight of project implementation, evaluation and loan repayment collections. In addition, the National Audit Office issued the following four corrective orders to DBM: (i) improve payment collection procedures regarding an outstanding and overdue loan to the Mongolian Stock Exchange; (ii) comply with tariff requirements under Finance Resolution No. 188 with respect to business and travel expenses; (iii) conform DBM's internal structure and organization to the requirements of the Development Bank Law; and (iv) appoint an independent board member and conduct board meetings in compliance with the requirements under the Development Bank Law.

DBM implemented changes, policies and procedures to address the specific corrective orders of the National Audit Office and submitted an implementation progress report regarding these matters to the National Audit Office on September 30, 2015. On December 20, 2016, DBM responded to the National Audit Office's request for additional information with a confirmation that DBM has taken all of the necessary corrective actions ordered by the National Audit Office.

On February 10, 2017, Parliament approved the Revised DBM Law, which was intended to strengthen DBM's governance and independence and to enable DBM to focus on commercially viable projects. It also includes provisions that increase (i) oversight from the Bank of Mongolia, (ii) transparency and (iii) accountability. The Revised DBM Law came into force on April 1, 2017.

The National Audit Office submitted its draft audit report on DBM dated May 18, 2017 to DBM as a follow-up to its earlier report on certain recommendations and findings provided to DBM. The draft report concluded that the Revised DBM Law resulted in certain previous recommendations becoming no longer applicable, and that DBM had taken all necessary corrective actions to comply with the National Audit Office's recommendations. The report further found that an independent member of DBM's board of directors had not met the statutory requirements set forth on independent members of its board of directors.

In January 2017, the IAAC commenced investigative proceedings in response to the working group and the Government alleging abuse of power and misappropriation of state funds or funds of DBM carried out by certain governing persons of DBM. For additional information, see “*Legal Reform—Measures Against Corruption and Bribery.*”

## **Foreign Policy**

Since Mongolia’s transition to democracy and a market economy, it has pursued an independent foreign policy. The main components of Mongolia’s foreign policy are maintaining friendly and balanced relations with its two neighbors, Russia and China, and developing closer ties with other potentially strategic export and import markets (the “Third Neighbor Policy”). Mongolia’s economy is significantly influenced by Russia and China. Mongolia purchases nearly all of its petroleum from Russia and China is Mongolia’s largest commodity export market. Furthermore, Mongolia’s ability to integrate with the global economy is dependent on easy access and efficient transport links to seaports and gateways through Russia and China. Mongolia’s Third Neighbor Policy is aimed at diversifying its political and economic dependence on its powerful neighbors by seeking closer ties with the United States, Japan, the Republic of Korea, the EU, India and Turkey.

Mongolia participates as a member of several international organizations, including the Treaty of Amity and Cooperation in Southeast Asia, the Association of Southeast Asian Nations Regional Forum, the Pacific Economic Cooperation Council, the Shanghai Cooperation Organization, the Asian Cooperation Dialogue, the Asia-Europe Meeting, Economic and Social Council for Asia and Pacific, Group of 77, the International Criminal Court, IFC, the ADB, European Bank for Reconstruction and Development, the IMF, the World Bank and the AIIB. Mongolia joined the United Nations (“UN”) in 1961 and has acceded to the Asia-Pacific Trade Agreement (“APTA”).

Mongolia joined the World Trade Organization (the “WTO”) in 1997, and its trade policy objectives are aimed at developing an outward-oriented trade regime following the principles of the WTO, with the goal of increasing overseas market access for Mongolia’s products through greater integration into the world economy. Mongolia continues to encourage foreign direct investment into the country to expand output and employment and encourage the transfer of skills and knowledge.

## ***China***

China is Mongolia’s largest trading partner and one of the largest investors in Mongolia. Although diplomatic relations between Mongolia and China were established in October 1949, diplomatic and trade relations improved only in 1984 after the renewal of friendly relations between the former Soviet Union and China, which have historically influenced diplomatic relations between Mongolia and China.

In May 2011, the Bank of Mongolia and the People’s Bank of China signed a bilateral local currency swap agreement in the amount of RMB5 billion/MNT1.0 trillion for the purpose of stabilizing Mongolia’s foreign exchange market and providing short-term RMB liquidity in the financial system. This agreement was amended in March 2012 to expand the scale of the swap from RMB5 billion/MNT1.0 trillion to RMB10.0 billion/MNT2.0 trillion. In August 2014, a new three-year swap agreement was signed for up to RMB 15 billion. The agreement was extended in June 2017 for a further three years, and was further extended in 2020 for another three years.

In June 2017, Prime Minister Erdenebat J. visited China and participated in the Belt and Road Forum for International Cooperation. During the Prime Minister’s visit, a number of memoranda of understanding between Mongolia and China were signed in addition to the agreement on the extension of the existing swap line between the People’s Bank of China and the Bank of Mongolia. On February 27, 2020, President Battulga met with Chinese President Xi Jinping in China, and the two leaders held meetings to enhance cooperation across sectors and further solidify bilateral relations.

On September 15, 2020, China’s Foreign Minister, Wang Yi, began a two-day visit to Mongolia. Wang listed three main goals for his visit: strengthening and extending cooperation in the fight against COVID-19; extending cooperation on economic and social development and the Belt and Road Initiative; and

working together to ensure the long-term, healthy and stable development of China-Mongolia relations. In addition, Wang and Mongolia's Foreign Minister Enkhbaatar N. signed a letter of disbursement in relation to the remaining RMB700.0 million to be disbursed to Mongolia as part of the RMB2.0 billion financial aid package agreed between the two countries in 2017.

### ***Russia***

Mongolia and Russia signed a Joint Declaration of Cooperation and a bilateral trade agreement in 1991 and the two countries signed the Treaty of Friendship and Cooperation in January 1993. In 2000, Russia and Mongolia signed the Ulaanbaatar Declaration, a bilateral agreement that reaffirmed the political and economic relationship between the two countries. In December 2003, in order to encourage bilateral trade and investment ties between the two countries, Russia wrote off the substantial majority of the then-outstanding debt accrued by Mongolia between 1946 and 1991.

In June 2016, the Presidents of China, Mongolia and Russia signed an agreement to create the Economic Corridor Program. The framework of the Economic Corridor Program provides for the implementation of over 30 projects among the three nations across various sectors, including infrastructure, energy and agriculture.

The Economic Corridor Program focuses on cooperation on road and transportation projects within the region among the three countries. However, cooperation under the program is not limited to the road and transportation sector but also extends to the agriculture and tourism sectors. The program's Economic Corridor represents an effort to increase trade integration and is also aligned with the policies of the respective countries, namely: China's "Belt and Road" initiative, Russia's "Trans-Eurasian Belt Development" and Mongolia's "Steppe Road" program.

On September 3, 2019, leaders of Mongolia and Russia signed a treaty on Friendly Relations and Comprehensive Strategic Partnership during Russian President Vladimir Putin's state visit to Mongolia at the invitation of Mongolia's then President, Battulga Khaltmaa. After the state visit, government officials and business delegates from both countries signed an intergovernmental agreement on cooperation between Mongolia and Russia in combating terrorism and an inter-regional and cross-border cooperation agreement.

### ***International Agreements***

Mongolia acceded to the WTO on January 29, 1997. The WTO agreements, such as Agreement on Agriculture and Agreement on Trade-Related Investment Measures, have been largely incorporated into Mongolia's domestic law. Mongolia has complied with the General Agreement on Tariffs and Trade ("GATT") 1994 upon its accession to the WTO.

Mongolia is a party to other international treaties, including protection of environment, free trade, protection of foreign investments and avoidance of double taxation. Mongolia has also ratified a number of international conventions, including the Treaty on the Civil and Political Rights (New York, 1966) and the Treaty on Economic, Social and Cultural Rights (New York, 1966).

Mongolia has entered into a "Foreign Investment Protection and Promotion Agreement" with various countries which offers protection to foreign investors. Mongolia is a party to the convention on the Settlement of Investment Disputes between States and Nationals of Other States. Mongolia is a full member of the Multilateral Investment Guarantee Agency ("MIGA") of the World Bank Group, since January 1999, and investors are eligible for risk insurance through MIGA.

### **Technical and Financial Assistance**

Mongolia has been a member of the United Nations since 1961 and is a member of many other international organizations, including the United States Agency for International Development ("USAID"), the ADB, the European Bank of Reconstruction and Development ("EBRD"), United Nations Development Program, United Nations Industrial Development Organization, Japan International Cooperation Agency, World Bank and the WTO. In 2011, Mongolia was categorized as a developing member country of World Bank and the

ADB, which gave Mongolia access to more concessional lending from International Bank for Reconstruction and Development of World Bank and to the ordinary capital resources of the ADB.

On May 24, 2017, the Government finalized the terms of a three-year financial assistance program with the IMF, which included a three-year extended arrangement under the EFF program, in a total amount of SDR 314.5 million (approximately US\$434.3 million). The Executive Board of the IMF completed various rounds of review of Mongolia’s performance under the program in the subsequent years. See “*The Mongolian Economy—Economic History—Mongolia’s IMF Program 2017-2020*” for additional information.

The following table sets forth Mongolia’s affiliations with major international financial organizations as of March 31, 2021:

<b>Name of organization</b>	<b>Date of affiliation</b>	<b>Mongolia’s subscription</b>	<b>Amount paid in by Mongolia</b>	<b>Mongolia’s outstanding borrowing</b>	<b>Type of funding</b>
USAID .....	1991	Not applicable 1,596 shares (SDR 15.96 million equivalent)	Not applicable	Not applicable	Grant based
ADB.....	1991	1,596 shares US\$ 22.07 million	US\$1.11million	US\$1,732 million	Borrowing
MCC .....	2004	Not applicable	Not applicable	Not applicable	Grant based
EBRD.....	2000	299 shares (Euro2.99 million equivalent)	US\$84,345.9	US\$8 million	Borrowing
IMF .....	1991	SDR 72.3 million (US\$99 million equivalent)	SDR 72.3 million	US\$99.5 million	Borrowing
UNDAF.....	2011	Not applicable	Not applicable	Not applicable	Grant based
AIIB .....	2020	411 shares (US\$41.1 million)	US\$8.2 million	US\$100 million	Sovereign backed loan
IBRD (the World Bank) .....	2020	466 shares	Not applicable	US\$33.8 million	Borrowing

Source: Ministry of Finance.

## THE MONGOLIAN ECONOMY

*Unless otherwise expressly stated, the information set out in this section is derived from publicly available sources. Such information and statistics have not been verified by the Issuer or any of the Initial Purchasers or their or the Issuer's respective affiliates or advisors. The information may not be consistent with other information compiled within or outside of Mongolia.*

### Overview

Mongolia operated as a Soviet-style, centrally planned economy until the establishment of a democratic government in 1990. Since 1990, Mongolia has transitioned into a market-oriented economy, with the private sector constituting approximately 80% of the nation's GDP in 2019, according to the National Statistical Office of Mongolia. Mongolia's economy had a real GDP growth rate of 7.2% in 2018 and 5.2% in 2019 and a contraction of 5.3% in 2020. Except for 2020, recent growth has been primarily driven by expanding coal and copper production, ongoing development of large mining projects, and growth in the agriculture sector. Mongolia, however, faces certain challenges, including managing the impact of the COVID-19 pandemic, maintaining a low target inflation rate, a growing dependence on the production and export of commodities that have volatile prices, trade dependence on China, a growing need for foreign direct investment to develop infrastructure projects, and fuel and energy requirements.

Although Mongolia has historically experienced extremely high rates of inflation, rates have been lower in recent years. In 2019, Mongolia's inflation rate was 5.2%, which was under the Bank of Mongolia's inflation target of 8.0%. Mongolia's inflation rate further decreased to 2.3% in 2020, primarily as a result of decreased demand linked to the adverse effects of the COVID-19 pandemic on the Mongolian economy.

Mongolia's economy is highly dependent on the production and export of commodities and on trade with China and Russia. Economic growth is strongly correlated to coal and copper export prices and, in particular, growth in China's economy. Mongolia is also dependent on Russia for a majority of its fuel needs which could lead to price pressure from Russia.

In September 2016, the Government submitted a request to the IMF for financial assistance. To further strengthen its request for financial assistance, the Government proposed the Economic Recovery Plan, which took into account various policy recommendations by the IMF. Following a visit to Mongolia by the IMF in October 2016, the IMF released a statement stating that the visit was very productive and common policy views were developed in many areas. Technical teams made subsequent visits to Mongolia, and a high-level delegation visited in late January 2017 for two weeks of in-depth discussions. On February 19, 2017, the IMF reached staff-level agreement with Mongolia on a three-year extended fund facility. On May 24, 2017, the IMF concluded its 2017 Article IV Consultation, an annual bilateral discussion on current economic and financial updates, with Mongolia. On the same day, the Government finalized the terms of the IMF's financial assistance package, which included a three-year SDR 314.5 million (approximately US\$434.3 million) loan for Mongolia. This was agreed as part of a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The combined program was designed to address key issues discussed in the Article IV consultation, and aimed at stabilizing the economy, restoring domestic confidence, and paving the way to economic recovery. For additional details about the program, which concluded on May 23, 2020, see "*—Economic History—Mongolia's IMF Program 2017-2020.*"

Recent Mongolian economic developments include:

- the Government achieved increased budgetary discipline by cutting non-essential government spending, the allocation of investment to key infrastructures and reductions in the cost of debt service to ease the burden on the allocated budget;
- positive impact on Government finances, resulting in an overall budget surplus of MNT855.5 billion for 2018;
- Parliament approved the Medium Term Debt Strategy 2019-2022 on May 30, 2019;

- the Government has used the strong growth performance to over-perform on key macro targets and refinance debt at lower interest rates;
- IMF staff completed its 2019 Article IV mission to Mongolia;
- IMF staff completed discussions for Mongolia’s emergency access to the IMF’s Rapid Financing Instrument (RFI) to help the country address the economic challenges posed by the COVID-19 pandemic;
- Mongolia was removed from the FATF AML/CFT “grey list” on October 23, 2020 and from the European Commission’s list on January 18, 2021;
- meeting between President Battulga and Chinese President Xi Jinping in China on February 27, 2020 further solidified bilateral relations;
- the Government announced a US\$1.8 billion economic stimulus package in response to the COVID-19 intended to maintain macroeconomic stability during the lockdown period; the stimulus package is largely funded by international financial organizations;
- in response to the COVID-19 pandemic, the Government has adopted a comprehensive stimulus plan estimated at MNT5.8 trillion (US\$2.0 billion). This plan includes various programs to provide relief to households, support businesses through tax exemptions and discounts, and the procurement of vaccines and medical equipment. Pursuant to this stimulus plan, approximately MNT2.8 trillion was funded and disbursed in 2020, while the timing and disbursement of the remaining MNT3.0 trillion is subject to change taking into consideration various factors, including budgetary restrictions, approvals and funding.
- the Government has sought to ensure the continued sustainability of its debt stock by only drawing long term, low interest facilities to fund its economic stimulus package; and
- exports of coal, which were suspended on February 10, 2020, resumed from March through Mongolia’s main ports through the implementation of COVID-19 preventative measures for truck drivers (known as the “Green Gateway”); revenue from coal exports increased starting from May 2020 as the daily number of trucks delivering coal through Gashuunsukhait, Shiveekhuren and Tsanhi increased. The Green Gateway boosted coal exports to China, with the daily number of coal trucks peaking in September 2020, surpassing pre-COVID-19 levels before declining as a result of seasonality factors and further outbreaks of COVID-19 in Mongolia, and the slowdown of purchases of coal from China in May and June 2021. The table below shows the average daily number of coal trucks crossing the border between Mongolia and China on a daily basis for the indicated months:

	<b>Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
Average daily	<b>2019</b>	731	880	1,400	1,350	1,394	1,001	1,113	1,424	1,480	1,306	891	727
number of	<b>2020</b>	814	178	114	315	768	936	1,012	1,560	1,734	1,628	1,138	645
coal trucks....	<b>2021</b>	797	817	722	621	384	343*	-	-	-	-	-	-

Note:

\* Data up to June 15, 2021.

Rio Tinto conducted an underground feasibility study with respect to future operations of the Oyu Tolgoi project, which includes both open-pit and underground operations. In September 2014, the feasibility study was finalized and presented to the board of directors of Oyu Tolgoi LLC. Based on the feasibility study, it was estimated that expansion capital of US\$5.4 billion would be required for the underground project. In June 2016, Jacobs Engineering Group Inc. was selected as the engineering, procurement and construction management services provider for the development of underground mining at Oyu Tolgoi.

Oyu Tolgoi LLC completed an updated feasibility study (“OTFS20”) and is in the process of submitting this to the Government of Mongolia. The OTFS20 has been prepared in accordance with Mongolian regulations and standards, which require mining companies to submit updated feasibility studies every five years. The updated study incorporates certain new mine design features and is expected to confirm that the cave-based method of mining for the project remains valid. The underground schedule and costs are expected to remain within the ranges previously disclosed.

OTFS20 is expected to include a delay of 21 to 29 months for first sustainable production from the underground project compared to the original feasibility study guidance in 2016 and an increase of US\$1.3 billion to US\$1.8 billion from the original US\$5.3 billion development capital. Detailed study, design, engineering and optimization work is ongoing to support the definitive estimate for the development of Oyu Tolgoi’s world-class orebody. These estimates are subject to any additional scheduling delays or increases in capital costs arising from the impacts of the COVID-19 pandemic.

Rio Tinto continues to target first sustainable production from Oyu Tolgoi’s underground project between October 2022 and June 2023 and development capital of US\$6.6 billion to US\$7.1 billion, based on the updated mine design. These estimates remain subject to any scheduling delays or increases in capital costs, including those arising from the impacts of the COVID-19 pandemic.

Rio Tinto and its subsidiary Turquoise Hill Resources (“TRQ”) entered into a memorandum of understanding (“MOU”) on September 10, 2020, which provides a pathway to progress the financing for completion of the Oyu Tolgoi Underground Project and address TRQ’s funding position. The MOU reflects the parties’ agreement that, subject to timing, availability and terms and conditions being acceptable to both parties, they will:

- pursue re-profiling of principal debt repayments with lenders under the existing project finance arrangements to better align with the revised mine plan, project timing and cash flows;
- seek to raise up to US\$500 million in additional debt financing under the existing project financing arrangements from selected international financial institutions; and
- while TRQ continues to explore other options for additional debt financings, which Rio Tinto will consider, Rio Tinto has advised TRQ that it does not currently support or expect to consent to any additional debt or other sources of funding. Rio Tinto and TRQ acknowledged that the balance of any funding required for Oyu Tolgoi to achieve completion of the underground mine will need to be met by way of an equity offering by TRQ.

In 2020, the Government established a working group, pursuant to a 2019 resolution of Parliament, to work to improve the Oyu Tolgoi project’s commercial terms, including financing arrangements for the Oyu Tolgoi Underground Project. The Government is seeking an agreement that will be acceptable to all parties and that will ensure the sustainability of the project. The working group is continuing to work with the project’s investors.

The following table sets forth Mongolia’s key macroeconomic data for the periods or as of the dates indicated below:

Macroeconomic Data	As of and for the year ended December 31,						As of and for the three months ended March 31,	
	2015	2016	2017	2018	2019	2020	2020	2021 <sup>(1)(2)</sup>
Nominal GDP (MNT billions)...	23,150.4	23,942.9	27,876.3	32,411.2	37,280.8	36,958.6	7,525.5	9,219.3
Nominal GDP (US\$ millions) <sup>(3)</sup> ...	11,749.6	11,159.4	11,425.8	13,137.6	13,996.7	12,968.4	2,709.2	3,235.1
Real GDP (MNT billions) <sup>(4)</sup> .....	15,850.7	16,035.9	16,891.8	18,115.9	19,050.5	18,034.1	3,154.6	3,651.4
Real GDP (US\$ millions) <sup>(3)(4)</sup> .....	8,044.8	7,474.1	6,923.5	7,343.1	7,152.3	6,327.9	1,135.7	1,281.3
Real GDP growth .....	2.4	1.2	5.3	7.2	5.2	(5.3)	(10.7)	15.7
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> .....	7,810.3	7,910.0	8,999.1	10,259.8	11,566.5	11,459.5	N/A	N/A
Nominal GDP per capita(US\$ <sup>(3)</sup> ) <sup>(5)</sup> .....	3,964.0	3,686.7	3,688.5	4,158.7	4,385.4	4,167.0	N/A	N/A
Year-on-year inflation .....	1.0	1.3	6.4	8.1	5.2	2.3	6.4	2.5
Exports (US\$ millions) <sup>(3)</sup> .....	4,669.3	4,916.3	6,200.6	7,011.8	7,619.8	7,576.3	1,035.8	2,000.4

Macroeconomic Data	As of and for the year ended December 31,						As of and for the three months ended March 31,	
	2015	2016	2017	2018	2019	2020	2020	2021 <sup>(1)(2)</sup>
Imports (US\$ millions <sup>(3)</sup> ).....	3,797.5	3,358.1	4,335.4	5,875.0	6,127.4	5,293.9	1,161.6	1,523.7
Balance of payments (US\$ millions <sup>(3)</sup> ).....	-268.1	-18.2	1,459.9	-141.7	452.9	786.9	(350.2)	170.4
Unemployment rate.....	7.5	10.0	8.8	7.8	10.0	7.6	6.6	8.8
Gross external debt (US\$ millions <sup>(3)</sup> ) <sup>(6)</sup> .....	22,717.8	24,624.5	27,492.7	28,714.9	30,702.3	32,361.8	30,517.4	32,487.1
Gross foreign exchange reserves(US\$ millions <sup>(3)</sup> ).....	1,323.1	1,296.3	3,008.1	3,541.6	4,348.6	4,534.2	4,094.2	4,774.6
Gross foreign reserves import cover (months).....	4.2	4.9	8.0	7.6	9.1	10.7	9.9	9.7

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) Preliminary figures as of March 31, 2021 unless otherwise indicated.

(3) The following exchange average rates were applied: 2015 – MNT1,970.3 = US\$1.00, 2016 – MNT2,145.5 = US\$1.00, 2017 – MNT2,439.8 = US\$1.00, 2018 – MNT2,467.1 = US\$1.00, 2019 – MNT2,663.5 = US\$1.00, 2020 – MNT2,849.9 = US\$1.00, March 31, 2021 – MNT2,849.8 = US\$1.00.

(4) Real GDP calculated at 2010 constant prices.

(5) Nominal GDP per capita calculated at current prices.

(6) “Gross external debt” includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

## Ratings

### S&P

On April 18, 2017, S&P affirmed Mongolia’s long-term sovereign credit rating at B- with a stable outlook, citing weakening fiscal and growth performance prior to the approval of the EFF program on May 24, 2017.

On April 20, 2018, S&P affirmed Mongolia’s long-term sovereign credit rating at B- with a stable outlook, citing Mongolia’s high fiscal debt burden, nascent political institutions, and the volatile nature of its economy due to its dependence on commodity exports, as well as Mongolia’s high external debt levels and limited monetary flexibility. S&P also affirmed Mongolia’s short-term credit rating at B.

On November 9, 2018, S&P raised Mongolia’s long-term sovereign credit rating from B- to B with a stable outlook, citing continued improvement in Mongolia’s fiscal metrics and a considerable acceleration in economic growth. S&P also affirmed Mongolia’s short-term credit rating at B.

On November 28, 2019, S&P affirmed Mongolia’s long-term sovereign credit rating at B with a stable outlook, citing Mongolia’s evolving institutional settings and elevated external imbalances, as well as ongoing improvements to its fiscal metrics and sound economic growth prospects. S&P also affirmed Mongolia’s short-term credit rating at B.

On July 9, 2020, S&P affirmed Mongolia’s long-term sovereign credit rating at B with a stable outlook, citing Mongolia’s modest per capita income level, evolving institutional settings, and elevated external imbalances. S&P also affirmed Mongolia’s short-term credit rating at B.

### Fitch

On February 19, 2017, Fitch affirmed Mongolia’s long-term and local currency credit rating at B- with a stable outlook.

On November 17, 2017, Fitch affirmed Mongolia’s long-term and foreign currency credit rating at B- with an outlook revised from stable to positive, reflecting Mongolia’s considerably improved fiscal outlook, decreasing gross general government debt, receding refinancing risks and the recovering economy.

On July 9, 2018, Fitch upgraded Mongolia’s long-term foreign-currency from B- to B with a stable outlook. The upgrade reflected Mongolia’s ongoing improvements to fiscal and external metrics and progress in meeting key IMF program targets.

On July 5, 2019, Fitch affirmed Mongolia's long-term and foreign currency credit rating at B with a stable outlook, citing Mongolia's robust growth outlook, improving fiscal metrics, and strong governance indicators.

On May 28, 2020, Fitch affirmed Mongolia's long-term and foreign currency credit rating at B with a stable outlook, reflecting Fitch's assessment that the sharp slowdown in GDP and export growth and the deterioration in public finances and an erosion in external buffers would largely be temporary, and the economy would rebound strongly and Mongolia's debt-to-GDP ratio would start to decline again in 2021.

On May 25, 2021, Fitch Ratings affirmed Mongolia's long-term foreign-currency issuer rating at "B" with a stable outlook, reflecting Fitch's assessment that economic recovery will continue during the remainder of 2021 that will facilitate a modest decline in the government debt/GDP ratio, despite temporary disruptions associated with a spike in COVID-19 cases since March 2021.

### ***Moody's***

On February 15, 2017, Moody's placed Mongolia's issuer rating on negative watch for downgrade in connection with its review of the upcoming maturity of DBM's then outstanding dollar-denominated bonds.

On March 30, 2017, Moody's confirmed its Caa1 long-term issuer ratings, the (P)Caa1 senior unsecured medium term note ("MTN") program and the Caa1 senior unsecured ratings of Mongolia with a stable outlook. This statement concluded the rating review for downgrade that Moody's initiated on February 15, 2017.

On January 18, 2018, Moody's upgraded Mongolia's long-term issuer ratings and the senior unsecured ratings to B3 from Caa1, and the senior unsecured MTN program rating to (P)B3 from (P)Caa1. The short-term issuer ratings were affirmed at Not Prime. The outlook remained stable. The updated rating reflected an alleviation in liquidity and external pressures and prospects of a somewhat attenuated sensitivity of Mongolia's credit metrics to fluctuations in commodity prices. Concurrently, Moody's also raised the local-currency bond and deposit ceilings to Ba2 from Ba3, the long-term foreign currency deposit ceiling was raised to Caa1 from Caa2 and the long-term foreign currency bond ceiling was raised to B1 from B3. All short-term foreign currency ceilings remained at Not Prime. These ceilings act as a cap on ratings that can be assigned to the foreign- and local-currency obligations of entities domiciled in the country.

On January 21, 2020, Moody's affirmed Mongolia's long-term issuer ratings and senior unsecured ratings at B3 and the senior unsecured MTN program rating at (P)B3. The outlook remained stable. The short-term issuer ratings were affirmed at Not Prime. The ratings reflected Mongolia's still weak albeit improving debt and fiscal metrics and weak institutions and governance, balanced by strong growth potential. Mongolia's country ceilings remained unchanged.

On May 8, 2020, Moody's changed the outlook on Mongolia's issuer ratings to negative from stable and affirmed the long-term B3 issuer and foreign currency senior unsecured bond ratings and the (P)B3 senior unsecured MTN program rating. The short-term issuer ratings were affirmed at Not Prime. The change in rating outlook to negative reflected rising external vulnerability risks related to a sharp fall in export revenue at a time when access to external financing is highly uncertain. Moreover, Moody's noted that Mongolia's borrowing requirements will increase markedly, in part to fund a large stimulus package, which raises liquidity risks. Mongolia's country ceilings remained unchanged.

On March 16, 2021 Moody's changed the outlook on the Government of Mongolia's issuer ratings to stable from negative and affirmed the long-term "B3" issuer and foreign currency senior unsecured bond ratings and the "(P)B3" senior unsecured MTN program rating.

Moody's stated its decision to change the rating outlook to stable reflects its view that liquidity risks and external pressures have stabilized for the foreseeable future, albeit at somewhat higher levels than seen prior to the pandemic. Higher government borrowing requirements resulting from sizeable stimulus in 2020 were financed primarily through a combination of concessional sources and a drawdown on fiscal reserves, thus relieving liquidity pressures. They also cited the Government's recent refinancing, which reduced upcoming

maturities in 2021 and 2022. External vulnerabilities have declined, on the back of a faster than expected recovery in mining exports, which Moody's said it expects to continue.

### **Economic Policy Objectives**

The economic policies and current targets as outlined in Mongolia's Government Action Plan 2020-2024, which was approved by Parliament on August 28, 2020, are as follows:

- provide for various programs to support the sustainable development of food, agriculture and light industry sectors;
- create a favorable environment for investment in the mining sector, ensure sustainable development and increase Mongolia's competitiveness in international markets;
- achieve sustainable and reliable development of the energy sector, with potential for export;
- continue development of roads to improve transportation infrastructure;
- maintain macroeconomic stability;
- enforce tight monetary policies to maintain inflation at the targeted level;
- develop railway and road infrastructure;
- increase the domestic production of energy;
- encourage the production of value-added mineral services in order to reduce dependence on the mining sector and to diversify the economy;
- improve rural development;
- provide affordable quality housing for its citizens across the country;
- introduce measures to reduce corruption;
- alleviate poverty and improve living conditions for its citizens;
- strengthen good governance;
- enhance security, law and order; and
- set medium-term macroeconomic targets to facilitate sustained economic growth, reduce poverty and improve standards of living.

### **Economic History**

Mongolia suffered a "transformational recession" between 1990 and 1993 due to the restructuring and privatization of state enterprises, which resulted in massive layoffs where most workers lost pension and other retirement rights. Since 1993, however, the Mongolian economy has grown relatively steadily.

Until 2008, Mongolia was predominantly an agricultural-based economy, with heavy reliance on the growth of crops and animal husbandry, particularly yaks, goats and sheep. Mongolia's main economic driver has shifted to the mining sector, as the country has significant deposits of coal, copper, gold, lead, zinc, iron ore, uranium and rare earth metals. Mongolia's mining sector represents the predominant source of foreign currency for the country, with mineral products representing approximately 88%, 89% and 93% of total

exports in 2018, 2019 and 2020, respectively. Furthermore, the mining sector employed 4.8%, 4.5% and 3.9% of Mongolia's total labor force in these same representative periods.

The table below sets forth information regarding Mongolia's commodities exports for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(US\$ thousands)</i>					
Copper.....	1,607,639	1,613,119	2,012,196	1,795,868	1,778,001	621,080
Coal.....	971,719	2,256,754	2,798,159	3,078,818	2,123,701	688,662
Crude oil.....	337,181	374,071	391,988	366,665	150,853	78,421
Iron ore.....	249,891	313,355	347,452	576,576	639,696	238,537
Gold.....	758,409	595,354	144,500	418,394	1,787,652	25,655
Cashmere.....	192,535	205,640	251,956	283,290	219,570	28,300

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

### ***Mongolia's IMF Program 2017-2020***

On May 24, 2017, the Government finalized the terms of a three-year financial assistance program with the IMF, which included a three-year extended arrangement under an EFF program, in a total amount of SDR 314.5 million (approximately US\$434.3 million). The EFF program was agreed as part of a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The Government had requested the IMF financial assistance package in September 2016 in response to a difficult near-term financial position, including balance of payment, and exchange rate and foreign reserve pressures. The IMF program, including the EFF program, was intended to: (i) discipline financial policy; (ii) improve central bank independence; (iii) strengthen the financial sector; (iv) foster economic diversification and inclusive growth; and (v) protect the most vulnerable in society. The IMF staff has stated that Mongolia made major progress in strengthening the resilience of its economy, including by public debt reduction and reserve accumulation, under the program, and that the policy buffers built during the program strengthened its ability to take emergency actions to combat the COVID-19 pandemic. The IMF program concluded on May 23, 2020.

On December 15, 2017, the Executive Board of the IMF completed its first and second reviews of Mongolia's performance under the program. Completion of the review enabled Mongolia to draw the equivalent of SDR 55.912 million (approximately US\$79.1 million), bringing then-total disbursements under the arrangement to SDR 83.868 million (approximately US\$118.6 million). Performance under the program to that point was evaluated to have been strong. Growth in 2017 was then projected to reach 3.3%, considerably higher than forecasted at the time of program approval. The combination of strong policy implementation and a supportive external environment helped the Government over-perform on all of the program's quantitative targets. Performance on structural reforms was also considered strong, notwithstanding the delays due to the change in Government in September 2017.

On March 28, 2018, the Executive Board of the IMF completed its third review of Mongolia's performance under the program. Completion of that review enabled the country to draw the equivalent of SDR 20.9598 million (approximately US\$30.6 million), bringing then-total disbursements under the arrangement to SDR 104.8278 million (approximately US\$152.8 million). Mongolia's performance under the program to that point was evaluated to have remained strong. The economy had recovered better than expected, with real GDP growth of 5.3% in 2017 and a significant improvement in the fiscal balance of 15% of GDP. The combination of strong policy implementation and a supportive external environment helped the country over-perform on all December 31, 2017 quantitative targets. However, the performance on structural reforms was considered to have been mixed, with some delays on structural benchmarks under the program and reversals of three fiscal measures considered during previous reviews.

On June 27, 2018, the Executive Board of the IMF completed its fourth review of Mongolia's performance under the program. Completion of that review enabled Mongolia to draw the equivalent of SDR 26.2088 million (approximately US\$36.9 million), bringing then-total disbursements under the arrangement to SDR

131.0366 million (approximately US\$184.6 million). Mongolia's performance to that point was evaluated to have remained strong. The combination of strong policy implementation and a supportive external environment helped the country over-perform on all end-March 31, 2018 quantitative targets under the program. Progress had also been made on structural reforms, albeit with some delays.

On October 31, 2018, the Executive Board of the IMF completed its fifth review of Mongolia's performance under the program. Completion of that review enabled the country to draw the equivalent of SDR 26.2088 million (approximately US\$36.2 million), bringing total disbursements under the arrangement in 2018 to SDR 157.2454 million (approximately US\$217.3 million). Mongolia was considered to have continued to perform well under the program. The combination of strong policy implementation and a supportive external environment helped the country meet all September 30, 2018 quantitative targets under the program, with significant over-performance on fiscal targets. Progress was also made on structural reforms, albeit with some delays. For Mongolia's financial sector, the focus remained on the follow-up to an asset quality review for banks.

An IMF staff team visited Ulaanbaatar during January 28 – 30, 2019 to continue discussions on the sixth review under the program. The IMF staff team outlined two issues to be resolved by the Government before they could complete the sixth review: banks would need to raise the full amount of capital that the Bank of Mongolia had requested, and that raised capital must be reviewed by a forensic audit to ensure consistency with local laws and regulations.

The EFF program concluded on May 23, 2020. Under the EFF program and related broader support from other lenders, Mongolia received US\$180.0 million from the ADB, the World Bank and the European Union in 2020, out of which US\$18.0 million was in the form of grants. The Government estimates that Mongolia achieved approximately 80% to 85% of the EFF program's targets.

## **GDP and Major Financial Indicators**

### ***Gross Domestic Product***

GDP measures the market value of all final goods and services produced within a country during a given period and is an indication of a country's productive output. Nominal GDP, or GDP at current market prices, values a country's output using the actual prices of each year. Real GDP, or GDP at constant market prices, values a country's output using the prices from a base year, thereby eliminating the distorting effects of inflation. Unless stated otherwise, all numbers in this document expressed as percentages of GDP refer to nominal GDP, and all growth rates are based on real GDP using 2010 as the base year.

In the three months ended March 31, 2021, Mongolia's GDP increased by 15.8% compared to contraction of 10.7% in the corresponding period in 2020. This increase was primarily due to growth in the industry sector, which grew by 26.6% compared with a contraction of 20.0% in the corresponding period of the preceding year.

In 2020, Mongolia's GDP contracted by 5.3% compared to growth of 5.2% in 2019, primarily due to the outbreak of COVID-19 which led to a 2% contraction in the industry sector as compared to the comparative period in 2019. This contraction was primarily due to lower mining exports mainly due to China's two-month COVID-19-related border shutdown and economic slowdown in terms of service sector.

In 2019, Mongolia's GDP grew by 5.2% compared to growth of 7.2% in 2018, primarily due to lower growth in the industry sector, which grew by 3.1% in 2019 compared to growth of 7.9% in 2018, which partially offset higher growth in the service sector, which grew by 5.8% in 2019 compared to growth of 4.7% in 2018.

In 2018, Mongolia's GDP grew by 7.2% compared to growth of 5.3% in 2017, primarily due to growth of 7.9% and 4.5% in the industry sector and agriculture sector, respectively, and a 20.1% increase in net taxes on products in 2018 compared to 0.7% and 1.8% growth and 18.5% increase, respectively, in 2017.

The higher growth in the industry sector was primarily due to strong mining sector exports and strong domestic demand. Mining sector exports increased by 13.0% as a result of the then doubling in Oyu Tolgoi

gold concentrate and strong coal exports, and higher growth in the agriculture sector was primarily due to good weather conditions for livestock and very strong growth in crops. The increase in net taxes on products was primarily due to a 13.0% increase in mineral exports, which resulted in higher tax collections on mineral products and expanded tax base following changes in the Government's VAT reimbursement policy.

The following table presents nominal GDP of Mongolia by sector for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)</sup>
	(MNT billions)						
Total GDP .....	23,943	27,876	32,411	37,281	36,959	7,526	9,219
<b>Sectors:</b>							
Industry.....	8,112	10,692	12,658	14,336	14,145	2,829	4,011
Mining and quarrying .....	4,817	6,543	7,721	8,643	7,994	1,731	2,708
Manufacturing .....	1,754	2,516	3,064	3,508	3,947	781	964
Electricity, gas, steam and air conditioning supply, water supply.....	592	603	682	774	843	231	253
Construction .....	949	1,030	1,191	1,411	1,361	86	86
Agriculture.....	2,799	2,865	3,496	4,027	4,459	272	279
Agriculture, forestry and fishing.....	2,799	2,865	3,496	4,027	4,459	272	279
Service.....	11,041	11,779	12,739	14,906	14,799	3,610	3,711
Wholesale and retail trade; repair of motor vehicles and motorcycles.....	2,647	2,876	3,025	3,547	3,302	601	670
Transportation and storage .....	1,239	1,370	1,517	1,733	1,392	330	338
Information and Communication.....	489	490	554	649	675	142	158
Other service activities .....	6,666	7,043	7,643	8,978	9,430	2,537	2,545
Net taxes on products .....	1,991	2,540	3,518	4,013	3,556	815	1,221

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

The following table presents the real GDP of Mongolia by sector at 2010 constant prices for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)</sup>
	(MNT billions)						
Total GDP .....	16,036	16,892	18,116	19,050	18,034	3,155	3,651
<b>Sectors:</b>							
Industry.....	5,719	5,759	6,212	6,402	6,003	1,008	1,277
Mining and quarrying .....	3,964	3,746	3,973	3,956	3,585	643	862
Manufacturing .....	912	1,093	1,265	1,402	1,420	209	253
Electricity, gas, steam and air conditioning supply, water supply.....	284	299	323	341	347	110	118
Construction .....	558	622	651	703	651	47	44
Agriculture.....	2,201	2,240	2,341	2,538	2,695	153	143
Agriculture, forestry and fishing.....	2,201	2,240	2,341	2,538	2,695	153	143
Service.....	6,721	7,238	7,577	8,017	7,446	1,594	1,651
Wholesale and retail trade; repair of motor vehicles and motorcycles.....	1,962	2,095	2,141	2,310	2,053	382	406
Transportation and storage .....	1,118	1,276	1,373	1,401	1,119	169	178
Information and Communication.....	344	390	420	452	453	103	106
Other service activities .....	3,297	3,476	3,642	3,854	3,821	940	961
Net taxes on products .....	1,395	1,654	1,986	2,093	1,888	399	580

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

The following table sets forth nominal GDP composition by sector (in percentages, including net taxes on products) for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)</sup>
	<i>(in percentages)</i>						
Industry .....	33.9	38.4	39.1	38.5	38.3	37.6	43.5
Mining and quarrying .....	20.1	23.5	23.8	23.2	21.6	23.0	29.3
Manufacturing .....	7.3	9.0	9.5	9.4	10.7	10.4	10.5
Electricity, gas, steam and air conditioning supply, water supply .....	2.5	2.2	2.1	2.1	2.3	3.1	2.7
Construction .....	4.0	3.7	3.7	3.8	3.7	1.1	0.9
Agriculture .....	11.7	10.3	10.8	10.8	12.1	3.6	3.0
Agriculture, forestry and fishing .....	11.7	10.3	10.8	10.8	12.1	3.6	3.0
Service .....	46.1	42.3	39.3	40.0	40.0	48.0	40.3
Wholesale and retail trade; repair of motor vehicles and motorcycles .....	11.1	10.3	9.3	9.5	8.9	8.0	7.3
Transportation and storage .....	5.2	4.9	4.7	4.6	3.8	4.4	3.7
Information and communication .....	2.0	1.8	1.7	1.7	1.8	1.9	1.7
Other service activities .....	27.8	25.3	23.6	24.1	25.5	33.7	27.6
Net taxes on products .....	8.3	9.1	10.9	10.8	9.6	10.8	13.2
<b>Total GDP .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

Traditionally, economic activity in Mongolia has been based on agriculture and animal husbandry, but in recent years the focus has shifted to the mining sector, as the country is endowed with some of the largest mineral deposits in the world. There is evidence of significant deposits of uranium, gold, lead, zinc and rare earths in Mongolia. The mining sector is also the predominant source of foreign currency for the country, with mineral products representing approximately 88%, 89%, 93% and 89.5% of total exports in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

To reduce its reliance on commodity reserves, to create new job opportunities and to develop a diverse and sustainable economy, the Government has proposed further development of the agriculture and tourism industries. Developing and strengthening downstream businesses that can service the mining industries as well as the non-mining industries will be important for Mongolia to ensure development of goods and services beyond mining as well as to provide well-paying jobs and more equitable wealth distribution and diversification of the economy.

Mongolia has seen a steady increase in the number of tourists visiting the country. In 2015, 2016, 2017, 2018 and 2019, Mongolia recorded 386.2 thousand, 404.2 thousand, 469.3 thousand, 529.4 thousand and 577.3 thousand tourists, respectively. Tourist arrivals to Mongolia, including during the high summer season, fell dramatically in 2020 due to the COVID-19 pandemic and associated border closures and the reduction in travel globally.

### ***Inflation***

The Bank of Mongolia adopted a monetary policy framework featuring an anchoring strategy that also employs inflation targets. Under this framework, an official policy rate was introduced and has been used since 2007.

Mongolia's economy is subject to supply and demand pressures. The Bank of Mongolia takes into account the underlying pressures when making decisions to stabilize inflation. In other words, there is a distinction between supply-side and one-time pressures. On the supply side, Mongolia is a landlocked country, experiences severe winter conditions and is geographically large, all of which result in high transport costs and the potential for supply bottlenecks. On the demand side, mineral exports are a key driver of the economy but are also subject to global commodity price volatility. Government spending, moreover, is largely relative to the non-mineral economy, equivalent to roughly two-thirds of non-mineral GDP, which makes changes in government spending a key source of demand volatility. Recent monetary policy decisions have been aimed at stabilizing inflation over the medium term.

Mongolia's inflation rate was 8.1% for 2018, 5.2% for 2019 and 2.3% for 2020, which was substantially below the Bank of Mongolia's inflation target of 6.0%. For the three months ended March 31, 2021,

Mongolia's inflation rate was 2.5%, which was again substantially below the Bank of Mongolia's inflation target of 6.0% +/- 2% for full year 2021. Year-on-year inflation is measured by the consumer price index ("CPI") and reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as on a yearly basis.

The following table sets forth the levels of year-on-year inflation for the major categories of goods contained in the CPI basket for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(MNT millions)</i>					
Food and non-alcoholic beverages .....	94.9	101.8	111.1	120.4	130.6	141.3
Alcoholic beverages and tobacco .....	101.2	105.0	113.4	117.2	122.1	123.2
Housing, water, electricity and fuels .....	103.0	110.6	128.7	132.8	123.1	126.4
Furnishing, household equipment and tools .....	102.9	108.5	114.0	118.5	122.4	124.8
Clothing, footwear and cloth .....	104.4	108.8	114.3	122.4	126.9	127.2
Transport .....	98.3	108.6	119.0	117.3	111.3	112.3
Education .....	116.3	122.7	129.7	142.2	142.7	143.3
Miscellaneous goods & services .....	103.5	111.7	115.9	122.6	128.2	130.1
Communication .....	98.7	98.2	98.6	98.6	98.8	98.9
Overall inflation .....	100.8	107.2	116.0	122.0	124.8	128.6

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

According to the National Statistical Office of Mongolia, for the three months ended March 31, 2021, Mongolia's inflation rate was 2.5%, which was substantially below the Bank of Mongolia's inflation target of 6.0%.

In 2020, Mongolia's inflation rate was 2.3%, which was substantially below the Bank of Mongolia's inflation target of 8.0%, primarily as a result of decreased demand linked to the adverse effects of the COVID-19 pandemic on the Mongolian economy.

In 2019, Mongolia's year-on-year inflation rate was 5.2%, which was primarily attributable to the increases in education; food and non-alcoholic beverages; and clothing, footwear and cloth, which increased by 9.6%, 8.3% and 7.1%, respectively.

In 2018, Mongolia's year-on-year inflation rate was 8.1%, which was primarily attributable to housing, water, electricity and fuels; transport; and food and non-alcoholic beverages, which increased by 16.3%, 9.7% and 9.1%, respectively.

The Monetary Policy Committee has cut the policy rate by five percentage points from 11.0% at the beginning of 2020 to 6.0% in December 2020. The continued impact of COVID-19 has changed the external and domestic economic conditions within a short timeframe, aggravated uncertainties, and triggered a contraction in business activities. In light of these conditions, the Monetary Policy Committee's decisions have been aimed at ensuring economic and financial stability while keeping inflation around the target rate. Therefore, necessary monetary measures have been implemented to lessen the adverse economic consequences of the COVID-19 pandemic and to support economic activity.

### ***Commodity Prices and Mining Dependency***

Mongolia's economy is heavily dependent on exports and foreign capital. Any significant decline in international prices for commodities, including coal and copper, which are Mongolia's main exports, poses risks to Mongolia's export revenue. During certain periods, slowdown in China's economy have led to decreases in Chinese demand for global commodity imports and put downward pressure on commodity

prices, negatively impacting Mongolia's export growth, which has resulted in decreases of external balances. However, China remained the largest export market for Mongolia in 2018, 2019, 2020 and the three months ended March 31, 2021, comprising 93.3%, 89.1%, 72.5% and 92.5% of Mongolia's exports, respectively. China's economic growth slowed to 6.8% in 2018, 6.1% in 2019, 2.3% in 2020 and increased to 8.4% in the three months ended March 31, 2021, which has in turn adversely affected the Mongolian economy. More recently, China's economy has recovered from its COVID-19-related slowdown, which has increased demand and prices for Mongolia's commodity exports. Mongolia's coal exports to China may have also benefited from strains in China-Australia trade relations, although the long-term trends of that development are uncertain.

### ***Sourcing of Petroleum Products***

Mongolia purchases nearly all of its petroleum products from Russia. Reliance on essential energy supplies such as oil makes Mongolia vulnerable to supply shortfall and rising prices. Mongolia has suffered numerous fuel shortages since the 1990s.

In an effort to reduce its dependence on Russia, the Government is looking to diversify supply by signing contracts with other suppliers. The Government is also planning to increase its domestic production of oil through the construction of its own refineries. The country's first refinery is expected to be built by Japan's Marubeni Corporation, Toyo Engineering Corporation and Mongolia's Mongol Sekiyu in Darkhan City approximately 200 kilometers north of Ulaanbaatar, requiring an investment of US\$600 million. In 2015, India's Prime Minister Narendra Modi announced the extension of a credit line of US\$1.0 billion to Mongolia to expand Mongolia's economic capacity and infrastructure. The Government intends to use this credit line to finance the construction of a new oil refinery (with an annual processing capacity of 1.5 million tons). Parliament ratified an agreement between the Government and Export-Import Bank of India for this credit line on May 31, 2017. Contract negotiations for various places of the refinery project are ongoing, and the refinery is targeted to begin operations in 2024.

In an effort to reduce its dependency on Russia for petroleum imports, Mongolia has also been conducting exploration activities which revealed positive geological and geophysical data. Recent discoveries of oil have been reported. This indicates a high probability of petroleum reserves existing in Mongolia. While Mongolia's other natural resources, such as coal, are being harvested at a higher rate than oil, the untapped oil deposits represent a favorable petroleum potential in Mongolia.

## **Principal Sectors of the Economy**

### ***Overview***

#### ***Industry***

The industry sector consists of four main sub-sectors: (i) mining and quarrying, (ii) manufacturing, (iii) construction, and (iv) electricity, gas steam and air conditioning supply. In 2018, 2019, 2020 and the three months ended March 31, 2021, the industry sector represented 39.1%, 38.5%, 38.3% and 43.5%, respectively, of nominal GDP.

For the three months ended March 31, 2021, the industry sector recorded growth of 26.6%, compared with a contraction of 20.0% in the corresponding period of the previous year. This growth was mainly driven by a 17.1% increase in the mining and quarrying subsector, which was primarily due to the increased commodity prices in the global market and higher exports due to the easing of COVID-19-related border restrictions.

For 2020, the industry sector recorded a contraction of 6.2%, compared with growth of 3.1% in the previous year. This contraction was mainly driven by a 9.4% decline in the mining and quarrying subsector, which was primarily due to the substantial drop in coal exports as a result of COVID-19-related export difficulties arising from border closures.

In 2019, the industry sector recorded growth of 3.1%, compared with growth of 7.9% in 2018. This growth was mainly driven by 10.9% growth in the manufacturing sub-sectors, primarily due to production of quality-improved coal for Ulaanbaatar's ger district residents and production of high-quality export coal, and 8.0% growth in the construction sector, primarily due to increased investment related to railroad and oil refinery projects.

In 2018, the industry sector recorded growth of 7.9%, compared with growth of 0.7% in 2017. This growth was mainly driven by 15.7% growth in the manufacturing subsector, which was primarily due to meat production related to exporting opportunities and 6.1% growth in the mining and quarrying subsector, which was primarily due to a decline in gold concentrate from Oyu Tolgoi.

### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing and represented 10.8%, 10.8%, 12.1% and 3.0% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

In the three months ended March 31, 2021, the agriculture sector recorded a contraction of 6.6%, compared with growth of 14.0% in the corresponding period of the prior year. This contraction was mainly driven by the COVID-19-related control measures that reduced labor capacity.

In 2020, the agriculture sector recorded growth of 6.2%, compared with a contraction of 8.4% in the prior year. This growth was mainly driven by the stable weather conditions throughout the year.

In 2019, the agriculture sector recorded growth of 8.4%, compared to growth of 4.5% in 2018, as the Government successfully implemented its "mid-term development program for agricultural extension."

In 2018, the agriculture sector recorded growth of 4.5%, compared to growth of 1.8% in 2017, primarily due to the implementation of Government projects related to animal health, cashmere, fruits and vegetables.

### *Service*

The service sector consists of four main sub-sectors: (i) wholesale and retail trade; repair of motor vehicles and motorcycles, (ii) transportation and storage, (iii) information and communication and (iv) other service activities. The service sector represented 39.3%, 40.0%, 40.0% and 40.3% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

In the three months ended March 31, 2021, the service sector recorded growth of 3.6%, compared with a contraction of 6.5% in the corresponding period of the prior year. This growth was mainly driven by a 6.3% growth in the wholesale and retail trade subsector, which was primarily due to the loosening of COVID-19-related control measures.

In 2020, the service sector contracted by 7.1%, compared to growth of 5.8% in 2019. This was mainly driven by an 11.1% contraction in the wholesale and retail trade subsector, which was primarily due to lower wholesale and retail sales revenue as the transportation and storage sector contracted due to the effects of the COVID-19 pandemic lockdown and border closures, and a 20.1% contraction in the transportation and storage subsector, which was also primarily due to the drop in line with the effects of the COVID-19 pandemic.

In 2019, the service sector recorded growth of 5.8%, compared with growth of 4.7% in 2018. This growth was mainly driven by 7.9% growth in the wholesale and retail trade subsector, which was primarily due to higher wholesale and retail sales, and 5.8% growth in other service activities, which was primarily due to growth of 10.3% in financial and insurance activities.

In 2018, the service sector recorded growth of 4.7%, compared with growth of 7.7% in 2017. This growth was mainly driven by 7.6% growth in the transportation and storage subsector, which was primarily due to increases in total freight and road transport, and 4.8% growth in other service activities, which was primarily due to 5.5% growth of financial and insurance activities and 6.9% growth of real estate activities.

## ***Industry***

### ***Mining and Quarrying***

Mining and quarrying is the most important economic sub-sector and is anticipated to continue to be the main driver of Mongolia's economic growth. The mining sector represented 23.8%, 23.2%, 21.6% and 29.3% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

The mining and quarrying sub-sector recorded growth of 34.1% in the three months ended March 31, 2021, compared with a contraction of 29.7% in the corresponding period of the prior year. This growth was primarily due to increased commodity prices in the global market and higher exports due to the easing of COVID-19-related border restrictions.

The mining and quarrying sub-sector recorded a contraction of 9.4% in 2020, compared with a contraction of 0.4% in the prior year. This contraction was primarily due to the substantial drop in coal exports.

The mining and quarrying sub-sector recorded a contraction of 0.4% in 2019, compared to growth of 6.1% in 2018, primarily due to a decline in gold concentrate production from Oyu Tolgoi.

The mining and quarrying sub-sector grew by 6.1% in 2018, compared to a contraction of 5.5% in 2017, primarily due to higher gold production from Oyu Tolgoi.

The mining and quarrying sub-sector is the predominant source of exports, with mineral products representing approximately 88%, 89%, 93% and 87.9% of total exports in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively. Mongolia's mineral exports are primarily comprised of coal, copper, gold, crude oil and iron ore.

The contribution of copper to Mongolia's exports significantly increased by approximately 24.7% in 2018 compared to 0.3% in 2017. Total copper exports were approximately 1,436.7 thousand tons in 2018 and approximately 1,447.2 thousand tons in 2017. Oyu Tolgoi produced: (i) 157.4 thousand tons of copper, 974.0 thousand tons of silver and 114.0 thousand ounces of gold in 2017, (ii) 159.1 thousand tons of copper, 914.0 thousand tons of silver and 285.0 thousand ounces of gold in 2018, (iii) 149.9 thousand tons of copper, 895.9 thousand tons of silver and 273.6 thousand ounces of gold in 2019 and (iv) 137.8 thousand tons of copper, 760.0 thousand tons of silver and 150.0 thousand ounces of gold in 2020. Oyu Tolgoi LLC paid various taxes to the Government in the aggregate amount of approximately US\$160.0 million in 2017, US\$179.0 million in 2018, US\$183.0 million in 2019 and US\$149.0 million in 2020.

The contribution of coal to Mongolia's exports has significantly increased in recent years to approximately 40.4% in 2019 compared to 16.2% in 2009. Total coal exports were 28.6 million tons in 2020, 36.6 million tons in 2019 and 36.3 million tons in 2018. Erdenes Tavan Tolgoi exported 11.7 million tons, 13.7 million tons and 9.2 million tons of coal in 2018, 2019 and 2020, respectively.

### ***Manufacturing***

Mongolia's manufacturing sub-sector has been a significant contributor to increases in GDP in recent years. The primary components of the manufacturing sub-sector are processing of food and beverage, wool and cashmere, leather, textiles, basic metals and non-metallic mineral products. Food and beverage manufacturing is the largest component of the manufacturing sub-sector, comprising approximately 51% of the manufacturing sub-sector; it consists mainly of processing of meat, dairy, flour and associated products, alcoholic beverages and salt. The manufacturing sector represented 9.5%, 9.4%, 10.7% and 10.5% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

The manufacturing sub-sector recorded growth of 21.0% in the three months ended March 31, 2021, compared to a growth of 4.1% in the corresponding period of the prior year, primarily due to easing of the COVID-19-related control measures imposed by the Government.

The manufacturing sub-sector recorded growth of 1.3% in 2020, compared to a growth of 10.8% in the prior year, primarily due to declines in textile and meat production.

The manufacturing sub-sector recorded growth of 10.9% in 2019, compared to growth of 15.7% in 2018, primarily due to production of quality-improved coal for Ulaanbaatar's ger district residents and production of high-quality export coal.

The manufacturing sub-sector grew by 15.7% in 2018, compared to growth of 19.9% in 2017, primarily due to higher meat production related to exporting opportunities.

### *Construction*

The construction sector represented 3.7%, 3.8%, 3.7% and 0.9% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

The construction sub-sector recorded a growth of 4.7% in the three months ended March 31, 2021, compared to growth of 11.9% in the corresponding period of the prior year. This was primarily a result of COVID-19-related control measures during the construction season and increased construction material prices, which decreased construction activities.

The construction sub-sector recorded a contraction of 7.4% in 2020, compared to growth of 8.0% in the prior year. This was primarily a result of a slowdown in residential construction with slower lending.

The construction sub-sector recorded growth of 8.0% in 2019, compared to a contraction of 4.7% in 2018, primarily due to increased investment related to railroad and oil refinery projects.

The construction sub-sector recorded growth of 4.7% in 2018, compared to growth of 11.4% in 2017, primarily due to increased government spending and investment.

### *Electricity, Gas Steam and Air Conditioning Supply and Water Supply*

The electricity, gas steam and air conditioning supply and water supply sub-sector has experienced a high growth rate since 2010 and is expected to continue to grow rapidly as the total demand for energy in Mongolia increases in line with urbanization and industry development. The electricity, gas steam and air conditioning supply and water supply sector represented 2.1%, 2.1%, 2.3% and 2.7% of nominal GDP in 2018, 2019, 2020 and three months ended March 31, 2021, respectively.

The electricity, gas, steam, and air conditioning supply and water supply sub-sector grew by 7.6% in the three months ended March 31, 2021, compared to growth of 6.5% in the corresponding period of the prior year.

The electricity, gas, steam, and air conditioning supply and water supply sub-sector grew by 1.8% in 2020, compared to growth of 5.6% in the prior year.

The electricity, gas, steam and air conditioning supply and water supply sub-sector grew by 5.3% in 2019, compared to growth of 8.2% in 2018, as electricity and steam production increased by 19.8% and water supply increased by 10.3%.

The electricity, gas, steam and air conditioning supply and water supply sub-sector grew by 8.2% in 2018, compared to growth of 5.0% in 2017, as electricity and steam production increased by 10.3% and water supply increased by 11.1%.

### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing. Mongolia's agriculture sector is heavily focused on livestock, with 117 million hectares of the country's land area allocated for pastures. Livestock

raised commercially include sheep, goats, cattle, horses and camels, and are used for meat, dairy and fiber production. Primary crops include wheat, potatoes and fodder.

The agriculture sector's relative contribution to Mongolia's GDP has been declining since 1995 due to growth in the industry sector. In 1995, the agriculture sector's contribution to GDP was 38.0%, which decreased to 12.1% in 2020. The agriculture sector represented 10.8%, 10.8%, 12.1% and 3.0% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

The agriculture sector contracted by 6.6% in the three months ended March 31, 2021, compared to growth of 14.0% in the corresponding period of the prior year. This contraction was primarily due to the COVID-19-related control measures that reduced labor capacity.

The agriculture sector grew by 6.2% in 2020, compared to growth of 8.4% in 2019. The continued growth was primarily due to increases in foreign sales.

The agriculture sector grew by 8.4% in 2019, compared to growth of 4.5% in 2018, as the Government successfully implemented its mid-term development program for agricultural extension.

The agriculture sector grew by 4.5% in 2018, compared to growth of 1.8% in 2017, primarily due to the Government's implementation of projects, including concessional lending, related to animal health, cashmere, fruits and vegetables.

### *Service*

The service sector represented 39.3%, 40.0%, 40.0% and 40.3% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

#### *Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles*

The wholesale and retail trade sub-sector recorded growth of 6.3% in the three months ended March 31, 2021, compared to a contraction of 10.0% in the corresponding period of the prior year. The growth was primarily due to the easing of COVID-19-related control measures.

The wholesale and retail trade sub-sector recorded a contraction of 11.1% in 2020, compared to growth of 7.9% in 2019. The contraction was primarily due to lower wholesale and retail sales revenue.

The wholesale and retail trade sub-sector recorded growth of 7.9% in 2019, compared to growth of 2.2% in 2018, primarily due to higher wholesale and retail sales.

The wholesale and retail trade sub-sector recorded growth of 2.2% in 2018, compared to growth of 6.8% in 2017, primarily due to slower growth in wholesale sales.

#### *Transportation and Storage*

The transportation and storage sector represented 4.7%, 4.6%, 3.8% and 3.7% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

In the three months ended March 31, 2021, the transportation and storage sub-sector recorded growth of 5.6%, compared to a contraction of 30.6% in the corresponding period of the prior year, as transportation revenue increased in line with the easing of COVID-19-related control measures and the gradual reopening of border ports for transportation and logistics.

In 2020, the transportation and storage sub-sector recorded a contraction of 20.1%, compared to growth of 2.0% in 2019, as all types of transportation revenue decreased in line with the effects of the COVID-19 pandemic.

In 2019, the transportation and storage sub-sector grew by 1.7%, compared to growth of 7.6% in 2018, as all forms of transportation were higher.

In 2018, the transportation and storage sub-sector grew by 7.6%, compared to growth of 14.2% in 2017, driven by increases in total freight and road transport.

### *Information and Communication*

The information and communication sector represented 1.7%, 1.7%, 1.8% and 1.7% of nominal GDP in 2018, 2019, 2020 and the three months ended March 31, 2021, respectively.

The information and communication sub-sector recorded growth of 3.7% in the three months ended March 31, 2021, compared to growth of 0.3% in the corresponding period of the prior year. The higher growth was primarily due to the effective utilization of technology to enable workers to work remotely during the COVID-19-related control measures.

The information and communication sub-sector recorded growth of 0.2% in 2020, compared to growth of 7.6% in the prior year. This sub-sector was able to record growth despite the impact of COVID-19, primarily due to the Government giving priority to developing the information and communications sector to provide necessary Government services to the citizens through online means during the COVID-19 lockdowns.

The information and communication sub-sector recorded growth of 7.5% in 2019, compared to growth of 7.8% in 2018, growth was primarily driven by higher information and communication sector revenue, as the number of regular Internet users increased.

The information and communication sub-sector recorded growth of 7.8% in 2018, compared to growth of 13.3% in 2017, driven by higher information and communication sector revenue, as the number of regular Internet users increased.

The information and communication sub-sector grew by 13.3% in 2017, driven by higher information and communication sector revenue, as the number of mobile and regular Internet users increased.

### **Mining**

Mongolia's mining industry is still in its early stage of development due in large part to the rugged and remote terrain where key deposits are located. Recent Government initiatives related to infrastructure development, particularly policy statements for national railroad expansion, are expected to accelerate the development of strategic natural resource deposits in the coming years. Key mining projects as well as improvements to infrastructure supporting these mining projects are expected to have a positive impact on Mongolia's overall economic situation as commercial production commences. Parliament has approved the establishment of a commodities exchange in Mongolia and the relevant legislation and policy are under discussion. As part of the 2020-2024 Government Action Plan, the Government expects to expand its mining industry and revitalize the economy pending improved external conditions regarding commodities prices.

#### ***Principal Mining Projects***

Mongolia's key mining projects include Oyu Tolgoi and Tavan Tolgoi:

##### *Oyu Tolgoi*

Oyu Tolgoi is believed to be one of the world's largest copper-gold reserves under development and is located in the South Gobi region of Mongolia, approximately 550 kilometers south of the capital, Ulaanbaatar, and 80 kilometers north of the Mongolia-Chinese border. Once Oyu Tolgoi reaches full production, it is expected to be the world's third-largest copper mine and, according to the IMF, generate up to one-third of Mongolia's GDP. The Oyu Tolgoi copper mine was discovered in 2001 and, according to Oyu Tolgoi, is expected to produce more than 600,000 tons of copper, 20.3 tons of gold and 93.8 tons of silver per annum once it reaches full production. It has an estimated 2.7 million tons of recoverable copper

and 1.7 million ounces of recoverable gold in reserves. Oyu Tolgoi is a combined open-pit/underground project. Commercial production from the open pit operation of the Oyu Tolgoi mine commenced in 2013. The first sustainable production from the underground operations is expected to commence sometime between October 2022 and June 2023. Oyu Tolgoi contributes a 5.0% royalty payable to the Government on a gross sales value basis.

On October 6, 2009, Rio Tinto and Ivanhoe Mines signed an investment agreement to develop the Oyu Tolgoi mine (the “Investment Agreement”). Under the Investment Agreement, the Government holds a 34.0% equity stake through Erdenes Oyu Tolgoi LLC, and Turquoise Hill (formerly known as Ivanhoe Mines) holds a 66.0% equity interest. Rio Tinto, a leading global mining company, holds a 51.0% equity interest in Turquoise Hill Resources; the remaining 49.0% is held by non-controlling shareholders. The Investment Agreement has a term of 30 years and can be renewed once for a period of 20 years. It also provides the Government with an option to acquire a further 16.0% equity stake in the Oyu Tolgoi mines one year after renewal of the Investment Agreement and fixes certain major tax rates relating to the mining of Oyu Tolgoi for the life of the Investment Agreement.

In June 2014, Oyu Tolgoi LLC received a Tax Act (Tax Assessment) from the Mongolian tax authority as a result of a general tax audit for the period 2010 through 2012. Oyu Tolgoi LLC appealed the assessment. In September 2014 the Mongolian tax authority reduced the amount of tax, interest and penalties claimed to be payable, from approximately US\$127.0 million to approximately US\$30.0 million. After discussions, in May 2015, Turquoise Hill, which holds a 66.0% equity interest in the Oyu Tolgoi mine, Rio Tinto, which owns 51.0% of Turquoise Hill, Oyu Tolgoi LLC and the General Department of Taxation of Mongolia signed a separate agreement pursuant to which Oyu Tolgoi LLC agreed to pay the reduced amount by way of settlement to resolve these tax matters.

In September 2015, the Government signed the request of MIGA for host country approval, which represented a significant milestone in the project financing timetable. On December 16, 2015, a US\$4.4 billion project financing facility agreement for Oyu Tolgoi’s Phase II was signed. This facility is being funded by a syndicate of various international financial institutions, export credit agencies and commercial banks. The development of underground mining at Oyu Tolgoi was approved in May 2016, with a total expected investment of US\$5.3 billion.

In June 2016, Jacobs Engineering Group Inc. was selected as the engineering, procurement and construction management services provider. In December 2020, Rio Tinto announced that the underground mining project is expected to begin production in October 2022. This expected production date represents a delay of the first sustainable production date guidance noted in a 2016 feasibility study of 21 to 29 months.

Rio Tinto continues to progress options to secure domestically sourced power for Oyu Tolgoi, which it is obliged to do by June 30, 2023 under the 2009 Investment Agreement among Turquoise Hill, the Government and Rio Tinto and the subsequent Power Sector Framework Agreement, signed in 2018 and amended in June 2020.

In compliance with these agreements, Oyu Tolgoi LLC submitted a Feasibility Study for the Tavan Tolgoi Power Plant (“TTPP”) Project to the Government, which included building a 300 MW coal power plant. In parallel with the TTPP Project, and in consultation with the Government, Rio Tinto is also progressing alternative options to source domestic power, including a renewable power component. The Government is also considering building a 450 MW coal power plant and is considering financing options for the plant.

### *Tavan Tolgoi*

The Tavan Tolgoi formation, located in the South Gobi desert near China’s northern border, is believed to be one of the world’s largest coal deposits under development with an estimated 7.4 billion tons of coking and thermal coal resources. The formation is comprised of six coalfields: (i) Tsankhi, (ii) Ukhaa Khudag, (iii) Bor Tolgoi, (iv) Borteeg, (v) the Southwest coalfield and (vi) the Eastern coalfield. The Tsankhi section is the main coalfield and contains most of the coking coal reserves. It is further divided into East and West Tsankhi.

The majority of the Tavan Tolgoi formation is owned and developed by Erdenes Tavan Tolgoi JSC, a government-owned company. East Tsankhi is estimated to have approximately 1.3 billion tons of coal resources. In 2019, Erdenes Tavantolgoi produced a total of 16.2 million tons of coal and 15.5 million tons were exported. In 2018, Erdenes Tavantolgoi produced a total of 11.1 million tons of coal and 13.1 million tons were exported. In 2017, Erdenes Tavan Tolgoi produced a total of 10.1 million tons of coal, of which 8.5 million tons was exported.

In October 2013, Erdenes Tavan Tolgoi, Mongolian Mining Corporation and Tavan Tolgoi JSC agreed to export one billion tons of the fuel to China's Shenhua Group Corporation of China ("Shenhua") over 20 years. Through the parties' cooperation, Erdenes Mongol LLC had contracted 450,000 tons of coal sales with Shenhua in 2014 and had supplied 444,672 tons by the end of 2014. In addition, in April 2015, Shenhua and Energy Resources LLC (a wholly owned subsidiary of Mongolian Mining Corporation) entered into an off-take agreement for the purchase of 1.2 million tons of coal from Mongolia pursuant to this arrangement. In 2014, Erdenes Tavan Tolgoi contracted 3,050,000 tons of coal sales with Shenhua and had supplied 1,580,827 tons by the end of 2015.

The Government intends to complete construction of the Tavan Tolgoi — Gashuun Sukhait railway by 2022 and according to the 2020-2024 Government Action Plan, this railway is expected to be completed in July 2022. The projects to be financed by the US\$1 billion Preferential Buyer's Credit Loan Agreement between the Government and the Export-Import Bank of the People's Republic of China, including the Tavan Tolgoi—Gashuun Sukhait railway project, was approved by the Government at the Cabinet meeting on August 9, 2017.

On June 29, 2018, Parliament approved a Resolution on "Intensifying the Economic Exploitation of Tavan Tolgoi Mine Deposit." The main issues addressed by the resolution include the public offering of up to 30.0% of the shares in Erdenes Tavan Tolgoi JSC on domestic and international stock exchanges, taking prompt action to initiate the construction of roads in the direction of Tavan Tolgoi—Gashuunsukhait, Tavan Tolgoi—Zuunbayan, Tavan Tolgoi—Oyutolgoi—Khangai, Tavan Tolgoi—Baruunnaran, railways in the direction of Tavan Tolgoi—Gashuunsukhait and Tavan Tolgoi—Zuunbayan, and taking action in relation to finalizing the construction of a power plant at the Tavan Tolgoi mine that is capable of meeting the energy demand in the South Gobi region of Mongolia.

Erdenes Tavan Tolgoi JSC repaid a US\$350 million debt to Aluminum Corporation of China Limited (CHALCO) in March 2017. This repayment enabled the Government to reap the benefits of coal exploitation at the East and West Tsankhi deposits of Tavan Tolgoi mine, as revenues will no longer be reduced by debt financing costs.

Erdenes Tavan Tolgoi JSC distributed dividends to its 2.5 million Mongolian citizen shareholders. Based on improved performance in 2019, the company's dividend per share was MNT90 per share. The company distributed dividends on September 2, 2020.

### ***Strategic Deposits***

A strategic deposit is defined under the Minerals Law as a deposit having a potential impact on national security, economic and social development at national or regional levels or having a production capacity of more than 5% of Mongolia's GDP. If an asset is deemed a strategic deposit, the Government has the right to acquire an entity stake of up to a 50% in the entity that holds the mining license for such strategic deposits if the Government had contributed to the exploration of the strategic deposit and an equity stake of up to 34% if the Government made no contributions.

On February 18, 2015, Parliament amended the Minerals Law such that if the relevant parties agree to transfer the Government's equity stake in a strategic deposit with the approval of an authorized organization, the recipient of the Government's equity stake in the strategic deposit would be required to pay a royalty of up to 5.0% of the sale of minerals extracted and imported from such strategic deposit. The royalty rate is determined based on the type of minerals in the strategic deposit. As a result, license holders for strategic deposits have the option of paying such royalty in order to obtain the Government's equity stake in the strategic deposit.

As of August 31, 2020, 16 deposits had been designated as strategic, and the Government is currently evaluating another seven mining sites. The following table sets forth the 16 sites designated as strategic deposits as of August 31, 2020:

<b>Mine</b>	<b>Mineral resource</b>	<b>Estimated reserves</b>
Tavan Tolgoi, South Gobi <sup>(1)</sup> .....	Coal	7.4 billion tons (approximately 25% coking coal and 75% thermal coal)
Baganuur <sup>(2)</sup> .....	Lignite Coal	600.0 million tons
Nariin Sukhait <sup>(2)</sup> .....	Metallurgical Coal	125.5 million tons
Mardai, Dornod <sup>(2)</sup> .....	Uranium	0.001 million tons at 0.119% O3U8
Dornot, Dornod <sup>(2)</sup> .....	Uranium	0.029 million tons at 0.175% O3U8
Gurvanbulag, Dornod <sup>(2)</sup> .....	Uranium	0.016 million tons at 0.152% O3U8
Tomortei, Selenge <sup>(2)</sup> .....	Iron ore	229.3 million tons at 51.15% iron
Oyu Tolgoi, South Gobi <sup>(2)</sup> .....	Copper, gold	37 million tons of copper, 1,431 tons of gold
Tsagaan Suvarga, Dornogovi <sup>(2)</sup> .....	Copper, molybdenum	10.6 million tons of oxides at 0.42% copper, 0.011% molybdenum; 240.1 million tons sulfides at 0.53% Cu/0.018% molybdenum
Erdenet, Orkhon <sup>(2)</sup> .....	Copper, molybdenum	1.2 billion tons at 0.51% copper, 0.012% molybdenum
Burenkhaan, Khuvsgul <sup>(2)</sup> .....	Phosphorite	300 million tons at 19.0% phosphorite
Boroo, Selenge <sup>(2)</sup> .....	Gold, ore	0.025 million tons at 1.6 grams per metric ton gold
Tomortein Ovoo, Sukhbaatar <sup>(2)</sup> .....	Zinc	7.7 million tons at 11.5% zinc
Asgat, Bayan-Ulgii <sup>(2)</sup> .....	Silver	6.4 million tons at 351.08 grams per metric ton silver
Shivee Ovoo, Gobisumber <sup>(2)</sup> .....	Lignite Coal	646.2 million tons
Gatsuurt Selenge <sup>(3)</sup> .....	Gold	70 tons

(1) Australasian Joint Ore Reserves Committee.

(2) ResCap, Mongolia 101, January 2011.

(3) Ministry of Mining and Heavy Industry.

The Ministry of Mining and Heavy Industry is responsible for overseeing the granting of mining licenses. A general environmental assessment is performed prior to granting any mining license, and a detailed environmental assessment is performed by government-accredited companies prior to commencement of operations. Non-compliance with these environmental assessments or related rehabilitation requirements would result in license cancellation or imprisonment.

### **Mineral Resources**

The following table sets forth the estimated reserves of the primary mineral resources as of December 31, 2020:

	<b>Estimated reserves</b>
Coal (billion tons).....	175.5
Copper (million tons).....	69.9
Iron ore (billion tons).....	1.8
Gold (tons).....	2,500
Zinc (million tons).....	4.4
Fluorspar (million tons).....	34.2
Uranium (thousand tons).....	170.0
Oil (million tons of oil).....	332.6

Source: Ministry of Mining and Heavy Industry.

### **Infrastructure**

#### **Overview**

In recent years, the Government has increased capital spending to upgrade its underdeveloped infrastructure. Infrastructure projects include the development of railways, roads, airports, housing, electricity, water systems and telecommunications. Investments in infrastructure were 28.3% of total expenditure and 8.1% of GDP in 2018, 22.1% of total expenditure and 6.8% of GDP in 2019 and 21.9% of total expenditure and 8.0% of GDP in 2020.

## ***Railways***

The development of railway infrastructure remains one of the most pressing issues in the Mongolian economy. Lack of railway access and capacity is the major challenge for the development of the Mongolian economy as a whole and the mining sector in particular. The existing railway networks comprise only a few branch lines which are insufficient to transport Mongolia's growing mining output to its commodity markets. To maximize revenue generation from its mineral resources, Mongolia requires a significant expansion of its railway network, an extension of its railway capacity and an increase in border crossings with Russia and China.

Currently, the Government, through the Ministry of Road and Transport Development, is working to build the 267 km Tavan Tolgoi—Gashuusukhait railway (connecting to the Chinese boarder) and the 414.6 km of Tavan Tolgoi—Zuun-bayan railway (connecting to the main trans-Mongolian railway line). These two 1,520 mm gauge railway projects are important to support the export of Mongolia's mining products, allowing the Tavan Tolgoi mine to use rail to export coking and other high-quality coal, replacing the truck transport links currently used. The new rail links are expected to substantially increase export capacity and reduce transportation costs. Substantial progress has been made on the Tavan Tolgoi-Gashuusukhait link, with earthworks completed and superstructure work continuing. The Tavan Tolgoi—Zuun-bayan railway is expected to be completed in 2021 while the Tavan Tolgoi-Gashuusukhait link is scheduled to be completed in 2022. In addition to these two projects, the construction of the Sainshand—Baruun—Urt-Khuut, Khuut—Choibalsan, and Nariinsukhait—Shiveekhuren railways are expected to create additional opportunities for the export of Mongolia's mining products, including coal and iron ore. The Government estimates that the 846 km Sainshand—Baruun—Urt railway will require US\$1.1 billion in financing and its preparations are well underway.

## ***Roads***

The Government recognizes the importance of transport and trade as key drivers of the economic development of Mongolia. The continuing economic growth has created new pressures on the developing transport network in Mongolia, and lack of adequate transport infrastructure continues to constrain the growth of economic activity.

The Government had been the primary financier of the road projects until 2009, when a public private partnership arrangement (“PPP”) was implemented by the State Policy on Public-Private-Partnerships within the scope of realizing privately-led economic growth. The State Policy on Public-Private-Partnerships outlines road projects as one of the key areas to be implemented through public private partnership arrangements.

In February 2016, Parliament approved the “Sustainable Development Vision of Mongolia—2030,” a long-term policy document which, among other goals, announced the Government's intent to develop and improve the road and transportation sector to satisfy public demand. In particular, the document provided for goals of establishing transportation and logistics centers in Zamiin—Uud, Khushigiin Khundii and Altanbulag, expanding cross-country and state road networks by 1,600 kilometers, constructing and operating the Tavan Tolgoi—Gashuun Sukhait railway, initiating the Erdenet—Ovoot and Bogd—Khan railway projects and improving transit transportation. The document also provided for reducing transportation costs and time for foreign and domestic trade, developing the airports of aimags and larger soums, developing air transportation for general purposes and completing the new Ulaanbaatar airport.

### *Ulaanbaatar New International Airport Highway*

The Ulaanbaatar New International Airport Highway is approximately 32.2 km long. The starting point is at the junction of the new international airport, and the end point is at Yarmag toll station, which connects with the completed Zuun Mod road. The designed width of the road is 32.5 meters, with two-way six lanes, and a designed driving speed of 80 km/h. The highway construction was completed in 2019.

### *Ulaanbatar—Darkhan road*

European Development Bank is providing US\$137.0 million for investments to double the throughput capacity of the 202-kilometre road between Mongolia's capital Ulaanbaatar and the third largest municipality of Darkhan. In addition, the ADB on March 2019, provided an additional US\$60.6 million loan agreement for the extension and improvement of the project. These loans will finance the construction of two new lanes adjacent to the existing lanes of the Ulaanbaatar—Darkhan motorway. The country's busiest road, which was constructed between 1943 and 1974, has not been properly maintained, and over 90% needs urgent refurbishment. This project is expected to address the issue of road safety and bring economic benefits for the country and the region. In addition to employment opportunities, the improved road will offer better infrastructure, including rehabilitated bridges and flood protection installations, which will result in safer rides for the community and transit vehicles. As of the date of this offering memorandum, the project is under construction.

### ***Airports and Flyover Rights***

Due to the vast distances between destinations and the relatively undeveloped road network, Mongolia depends on air transportation to connect its major towns and cities. There are three national airlines: MIAT Mongolian Airlines, Aero Mongolia, and Hunnu Airlines. MIAT Mongolian Airlines is a state-owned airline. Mongolia has a total of 24 airports. The Chinggis Khaan International Airport is the only international airport.

In 2008, the Government announced its intention to build a new international airport in the Khushigt valley, located approximately 54 kilometers south of Ulaanbaatar. In May 2008, the Government of Mongolia and the Japan Bank for International Cooperation entered into a loan agreement with a term of 40 years for a principal amount of ¥28.8 billion (US\$385.0 million) at an interest rate of 0.2% per annum for the purpose of building the new international airport in Ulaanbaatar. Construction work for the new airport and has been completed. The relevant authorities are in the process of granting approvals and the airport is expected commence operations in July 2021.

Given Mongolia's strategic location between Asia and Europe, the country is able to collect a significant amount of revenue from flyover rights paid by passenger and cargo aircraft. Revenue from flyover rights amounted to MNT167.7 billion and MNT156.0 billion in 2018 and 2019, respectively. Revenue from flyover rights fell by 48% in 2020 to MNT75.0 billion compared to MNT156.0 billion in 2019 due to the decreased number of flights as a result of the COVID-19 pandemic.

### ***Housing***

One of the Government's prime objectives is to provide affordable quality housing for its citizens across the country. As of 2020, approximately 40% of the Mongolian population and 22.0% of the population of Ulaanbaatar live in traditional gers. Gers are portable round tents that consist of a wooden frame and felt walls. The streets in the ger communities are unpaved, water supply is sporadic, waste is collected irregularly and the vast majority of the ger population is not connected to any utilities. Instead, during the winter, the ger population heat their gers with thermal coal, which is burnt in primitive coal-burning stoves. The smog caused by the coal-burning has led to high levels of air pollution and has caused a variety of medical problems for the population living in gers. In an effort to encourage the use of energy-efficient stoves and semi-coking coal to reduce air pollution, the Government has worked with Millennium Challenge Corporation to provide subsidies to families who switch from thermal coal stoves to energy-efficient stoves. Towards the end of 2016, air pollution in Ulaanbaatar exceeded 80 times the recommended levels by the WHO. In response, the Government has implemented measures eliminating the nighttime electricity tariff to encourage use of electric sources for heating rather than coal, restricting rural to urban migration in Ulaanbaatar and establishing zones in the city where coal burning is prohibited. Since March 2019, in an effort to reduce air pollution, the Government imposed a ban on the burning of raw coal in Ulaanbaatar. And as a substitute, the state-owned Tavan Tolgoi Fuel Company has been supplying "refined" or "smokeless" coal briquettes to Ulaanbaatar ger district residents. The Government believes that the city's air pollution has decreased substantially as a result of this change.

The majority of people living in the ger districts of Mongolia's cities are herders who migrated from rural areas. Since the 1990s, there has been a significant increase in the migration of the population from rural to

urban areas. In most cases, these herders migrated because they lost their livestock or because they were dismissed from their jobs when state enterprises and government offices closed down in the 1990s.

In an effort to address the environmental and social problems faced by residents of the ger districts, Parliament passed the New Development Medium-Term Target Program, which approved the 100,000 Housing Project, one of Ulaanbaatar's largest ongoing construction projects. Under the 100,000 Housing Project, 75,000 homes are planned to be built in Ulaanbaatar and 25,000 are planned to be built close to new mining developments. The 75,000 homes planned for Ulaanbaatar are not expected to be sufficient to house the entire ger population, but the project is expected to have a significant impact on the current situation by providing affordable housing to a portion of the ger population. Given the continuing housing shortage, another national program, "150,000 households-apartments," was approved by the Government in 2019. Within this program, measures are being taken to improve the environment by providing income-friendly mortgage loans and payments, and to reduce the cost of housing by including land and infrastructure costs with the participation of citizens. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar.

The majority of the construction for the 100,000 Housing Project and the 150,000 households-apartments will be carried out by the private sector. In an effort to encourage private sector involvement, the Government plans to provide land management services, infrastructure such as power lines and other utilities and social infrastructure such as schools and hospitals.

In order to assist the ger population in financing these new homes, the Government initiated an affordable mortgage system, which features significantly reduced mortgage rates. The Government intends to continue implementing programs to support the development of households with a view to increasing the income of its economically underprivileged citizens.

In order to reduce air pollution in Ulaanbaatar, the Solongo 1, Solongo 2 rental housing project is planned to be implemented from 2021 to 2024 financed by a loan from the government of the Republic of Korea. This project will primarily be directed to house ger district residents.

### *Electricity*

Demand for electricity has been driven by the rapid development of the country's mining-based economy.

As part of the 2020-2024 Government Action Plan, which was approved by the Parliament on August 28, 2020, the Government intends to achieve the following goals with respect to the energy sector:

- increase the production capacity of electricity and heating and create conditions to fully meet the growing demand domestically;
- based on the concept of regional development, feasibility study and design of energy sources, networks and infrastructure for large-scale civil and industrial construction projects implemented at the local level;
- the capacity of Thermal Power Plant IV will be expanded by 46 MW and the capacity of Erdenet Thermal Power Plant will be expanded by 35 MW;
- construction of the 450 MW Tavan Tolgoi power plant and related infrastructure will begin;
- renewable energy production will be developed in a balanced way, and green production projects will be implemented to reduce greenhouse gas emissions;
- the capacity of the Choibalsan thermal power plant will be expanded by 50 MW;
- construction of a 300-400 MW power plant based on coal deposits in the central, eastern and Gobi regions will begin;

- build a 160 MW large-scale battery energy storage system; and
- the capacity of the Amgalan thermal power plant will be increased by a combined 50 MW.

In 2020, Mongolia's total electricity consumption was 8,851.3 million kWh, of which 7,145.7 million kWh, or 80.7%, was generated domestically. Of this, 90.9% was generated by thermal power plants, 9.07% by solar, wind and hydroelectric plants, and 0.03% by diesel plants.

The Government is committed to increasing the share of renewables in the country's energy generating capacity, with a goal of 20% by 2023 and 30% by 2030, an increase from 8.2% and 19.3% in 2014 and 2019, respectively. Of Mongolia's current renewable energy capacity, 13.1% is hydropower, 16.7% is solar and 70.3% is wind. Mongolia's current renewable energy capacity includes 11 plants, and an additional nine plants are under construction or planned. Of Mongolia's renewable energy capacity installed as the date of this offering memorandum, 23 MW is hydropower, 152 MW is wind power and 90 MW is solar power. Its renewable energy capacity under development was 412 MW hydropower, 15 MW wind power and 35 MW solar power. Renewable energy projects will be organized through competitive procurement processes using private investment. Current efforts at expanding renewables are focused on hydropower. The Government also sees substantial opportunities to expand Mongolia's solar and wind generating capacity, but storage issues remain a challenge. To address this, the Government is working on storage solutions, including battery and other storage technologies. In April 2020, the ADB approved a US\$100.0 million loan for a 160 MW advanced large-scale battery energy storage system, or "BESS," which is expected to be completed in 2024 and become one of the world's largest battery storage facilities. The National Renewable Energy Center of Mongolia estimates that Mongolia has the potential to generate up to 2.6 TW of power from renewable sources.

Mongolia's power system consists of three unconnected energy systems: the Western Energy System, the Central Energy System ("CES") and the Eastern Energy System. The CES is Mongolia's most significant energy system. In general, electricity and heat are supplied by five major combined heat and power ("CHP") A substantial portion of Mongolia's power assets are not reliably available due to age and deterioration. In its efforts to increase supply, the Government is focusing on rehabilitating and expanding existing plants, which it believes will provide quicker, lower cost expansion of the country's generating capacity. Due to the lack of flexible electricity generation capacity and resources, the CES imports electricity from Russia during peak hours and imports from China for border-area mining projects.

Most of the CHPs are located in CES properties, which provide electricity to the central part of the country, including Ulaanbaatar, Darkhan and Erdenet, as well as 140 soum centers. The South Gobi region, which is located in the south of Mongolia, is isolated from the CES. The mines in South Gobi, Oyu Tolgoi and Tavan Tolgoi, must therefore have their own supply of electricity. By promoting the development of domestic energy sources, Mongolia was able to cut down its imported electricity from Russia from 4.4% in 2019 to 2.0% in 2020.

The coal industry is Mongolia's primary source of energy and remains critical to Mongolia's energy system. According to the Ministry of Energy, Mongolia's electricity generation capacity is comprised of nine thermal coal power plants, 13 hydroelectric power plants, several mid and small scale wind power plants and one solar power plant. Of these sources, a considerable portion of the electricity supply comes from thermal coal power plants, which generated 92.9%, 90.6% and 90.9% of the country's power in 2018, 2019 and 2020, respectively.

Rio Tinto continues to progress options to secure domestically sourced power for the Oyu Tolgoi project, which it is obliged to do by June 30, 2023 under the 2009 Investment Agreement between Turquoise Hill, the Government and Rio Tinto and the subsequent Power Sector Framework Agreement, signed in 2018 and amended in June 2020. An extension of power import arrangements with China's Inner Mongolian Power Company is required by March 1, 2021 to ensure sufficient certainty on future supply of power before the under-cut decision is taken.

The Government has completed the construction of four 220kW substations and a 670km long transmission line to supply electricity from the domestic power system for the mining of the strategic deposits in the

southern region and Gobi. On August 20, 2020, the Mandal, Tavan Tolgoi and Oyu Tolgoi substations were connected for normal operations, and a portion of the Oyu Tolgoi mine's power is now supplied from the CES.

In compliance with these agreements, Oyu Tolgoi LLC on February 17, 2020 submitted a feasibility study for the TTPP to the Government, which included building a 300 MW coal power plant. In parallel with the TTPP Project, and in consultation with the Government, Rio Tinto is also progressing alternative options to source domestic power, including a renewable power component. The TTPP Project feasibility study envisages a project cost estimate for the power plant of around US\$924 million, which is included in Oyu Tolgoi LLC's capital expenditure.

In 2020, Mongolia imported 19.3% of its annual electricity resources, of which approximately 81.7% were from China and 18.3% were from Russia. In an effort to decrease Mongolia's dependence on Russia, the Government has commissioned the Mongolia Integrated Power Systems, a 40-year power and heat development program, as a way to address shortfalls in capacity. The ultimate goal of the Mongolia Integrated Power Systems program is to create a unified power grid connecting the CES with the Western and Eastern Energy Systems.

### ***Water***

Mongolia has extremely limited water resources. In Mongolia, over 80% of water resources are located in the Khangai (green region) areas, which account for only 30% of the country's total territory. Intensifying mineral extraction and manufacturing in the Gobi desert is expected to result in a water shortage. At present, Mongolia consumes 700 cubic meters of water each year. Providing access to safe drinking water in the provinces presents challenges different from those in the urban areas. Most of the population directly use surface water on a daily basis, which results in greater risk in terms of hygiene and the quality of drinking water supply.

Mongolia's population is increasing and is becoming increasingly urbanized, yet only a minority of the population has access to running water and sanitation. In 2019, only approximately 35% of the population had access to water of satisfactory quality and only approximately 25% had access to proper sanitation. The Mongolian National Water Program Support Center has developed a range of projects for water reservoirs and water transfers from the Kherlen river and Orkhon river. Demand for fresh water and sanitation services are expected to substantially increase by 2030 due to increased migration from rural to urban areas. In addition to the expected increase in urban water consumption, increased development of mining will also increase the demand for water supply. The development of the Oyu Tolgoi and Tavan Tolgoi mines in southern Mongolia, for example, will pose a significant challenge to the water sector.

The Mongolian water sector is underdeveloped primarily due to a lack of financial resources and tariffs that are insufficient to cover related costs. The 2020-2024 Government Action Plan sets forth plans to increase water supply in Ulaanbaatar, improve wastewater treatment facilities in Ulaanbaatar and other cities and enable the use of recycled water for industrial uses. Some of the activities included in the 2020-2024 plan are as follows:

- gradually increase the capacity of urban water supply and sewage networks, introduce advanced mining techniques and technologies, implement integrated management to prevent pollution and depletion of water resources;
- 55% of fresh water resources and rivers shall be taken under special state protection. Within the framework of the "Blue Horse" project, the feasibility study and design of the Orkhon-Ongi and Kherlen-Toonot projects will be developed to increase the water supply by creating surface water accumulation; and
- a new source of clean water will be created in Ulaanbaatar, a new "Central Wastewater Treatment Plant" will be built and put into operation, and the treated water will be used for the technological needs of CHP3 and CHP4.

As part of the Millennium Challenge Corporation's second compact with Mongolia, US\$350 million is expected to be spent to expand the available water supply for people and businesses through infrastructure development and capacity building. The compact's water supply project will support the construction of new groundwater wells, introduce of a state-of-the-art water purification plant, support the construction of a new wastewater recycling plant and pipelines and support policy reforms that enhance the long-term sustainability of Ulaanbaatar's water supply. These investments are expected to increase the supply of water to Ulaanbaatar by more than 80.0%. The Government is expected to contribute US\$111.8 million to support this investment.

A new wastewater treatment plant is expected to be built in Ulaanbaatar funded by a soft loan in the amount of US\$249.6 million provided by the Export-Import Bank of the People's Republic of China. The project commencement ceremony was held during Chinese Foreign Minister Wang Yi's visit to Mongolia in August 2018. The project is expected to be completed in 2023.

## Employment and Wages

### Employment

The following table provides total labor force and a breakdown of paid employment, by average number of workers, in the principal sectors of the economy for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(by thousands persons)</i>					
Labor force .....	1,275.7	1,357.4	1,358.7	1,273.9	1,217.0	1,156.1
Unemployment rate (%) .....	10.0	8.8	7.8	10.0	7.6	8.8
<b>Paid employment:</b>						
Agriculture.....	348.5	356.4	334.1	290.2	269.2	303.1
Wholesale and retail trade.....	172.7	204.5	211.2	160.4	165.6	139.2
Education.....	95.0	98.9	98.7	96.1	107.1	86.3
Transportation and storage.....	65.9	72.7	73.6	61.1	67.0	51.1
Manufacturing .....	86.1	93.1	100.8	90.4	90.0	79.2
Public administration and defense ...	74.2	82.2	76.2	86	82.0	76.3
Construction .....	71.5	70.6	76.6	68.8	64.4	60.5
Human health and social work activities .....	41.0	40.0	49.5	44.4	53.4	45.1
Mining and quarrying .....	38.2	52	57.7	57.9	44.3	49.0
Accommodation and food service activities .....	32.1	36.4	37.5	36.3	28.0	34.9
Other service activities .....	19.8	22.7	23.4	24.5	25.1	23.2
Financial and insurance .....	21.9	24.1	25.7	24.3	32.0	23.6
Other.....	80.9	84.7	88	105.8	97.1	83.5
<b>Total.....</b>	<b>1,147.8</b>	<b>1,238.3</b>	<b>1,253.0</b>	<b>1,146.2</b>	<b>1,125.2</b>	<b>1,055.0</b>

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

In the first three months of 2021, the unemployment rate was 8.8%, which was primarily due to the effects of COVID-19. In 2020, the unemployment rate was 7.6%, the decrease was believed to be primarily a result of workers withdrawing from the labor force, probably a result of school closures and other elements of the COVID-19 containment measures implemented by the Government. For 2019, Mongolia's unemployment rate was 10.0%, compared to 7.8% for 2018, primarily due to lagging effects from the economic disruption caused by price volatility in commodities markets in 2016 and 2017. For 2018, the unemployment rate was 7.8%, compared to 8.8% for 2017, primarily as a result of government intervention to combat the effects of downward commodities price trends.

The expansion of Mongolia's mining sector has created many work opportunities. However, it is highly unlikely that there will be a seamless shift of workers from the low-skilled agricultural sector, which accounts for approximately 23.9% of total employment as of December 31, 2020, into the mining and non-

tradable sectors, such as transportation, construction, finance and retail. The Ministry of Labor and Social Welfare is responsible for providing training to the labor force in order to increase the number of skilled workers in Mongolia’s labor force. The Government is also working towards implementing national programs to increase work opportunities and reduce unemployment and poverty. These programs will include setting up professional vocation centers, polytechnic colleges and other institutions to prepare individuals for employment, including skilled workers, temporary employment for students and special employment opportunities for individuals over age 40.

### **Wages**

As of December 31, 2020, the national monthly minimum wage was MNT420,000 or approximately US\$147.1. Employers in the transportation, geology and mining are required to adhere to sector-wide minimum wages of MNT420,000 and MNT640,000, respectively.

The following table sets out the estimated national average monthly wages for the periods indicated:

	Average number for the year ended December 31,				
	2016	2017	2018	2019	2020
	<i>(MNT thousands)</i>				
National average monthly wages ....	861.9	944.5	1002.9	1,124.3	1,220.6

Source: National Statistical Office of Mongolia.

The World Economic Forum’s 2020 Global Gender Gap Index ranked Mongolia the 79th in the world for its gender equality. Mongolian women have lower levels of income for similar work and higher levels of unemployment and poverty than men due to limited access to assets (land and livestock) and under-representation of women in senior management and decision-making positions in both public and private sectors, which increased vulnerability to poverty and traditional gender-based divisions of labor.

### **Pension Funds**

Mongolia has a national social insurance system for employed individuals with an automatic salary deduction which goes into five co-mingled funds: retirement, benefit, health, industrial accident and occupational disease and unemployment insurance funds, The state pension system was established under the Social Insurance Law of 1994 and is one of the five major programs in social insurance. The Ministry of Labor and Social Protection is mainly responsible for formulating pension policies and implementing the pension scheme including collection of favorable premiums and payment of benefits.

### **Taxation**

The general legislative framework for tax in Mongolia comprises the Law of Mongolia on General Taxation, enacted on March 22, 2019, the Law of Mongolia on Corporate Income Tax, enacted on March 22, 2019 (the “Corporate Income Tax Law”), the Law of Mongolia on Value-Added Tax, enacted on July 9, 2015 (“VAT Law”), the Law of Mongolia on Personal Income Tax, enacted on March 22, 2019 (the “Personal Income Tax Law”) and the Law of Mongolia on Social Insurance, enacted on May 31, 1994.

In March 2019, the Parliament introduced new legislation on tax by repealing laws relating to general taxation, personal income tax and corporate income tax and adopted a new General Taxation Law, Corporate Income Tax Law and Personal Income Tax Law. The new laws became effective on January 1, 2020.

On December 24, 2020, the General Taxation Law was amended to grant authority to cities and towns to impose tax in relation to the amendments to the Constitution and the approval of the revised Law on Administrative and Territorial Units and their Governance. The amendment will be effective from January 1, 2022.

On November 13, 2020, the Parliament adopted the Law on Livestock Tax. The law entered into force on January 1, 2021. Under this law, the relevant Soum and District Citizens’ Representatives’ Khural (local legislative bodies) may determine the amount of tax for each type of livestock, up to MNT2,000 per head.

Principal taxes payable include corporate and personal income tax and VAT.

In 2018, the overall tax revenue increased by 30.0% to MNT8,207.1 billion (US\$3.3 billion). In 2019, overall tax revenue increased by 18.8% to MNT9,749.1 billion (US\$3.7 billion). In 2020, the overall tax revenue decreased by 7.48% to MNT8,501,795.2 billion (US\$3.05 billion).

### ***Corporate Income Tax***

Under the Corporate Income Tax Law, taxpayers are categorized as resident tax payers and non-resident tax payers. Resident taxpayers must pay taxes on the basis of their annual income in a given year, comprising the income received within the territory of Mongolia, Mongolian-sourced income and income received abroad. Non-resident taxpayers must pay tax on income received within the territory of Mongolia and Mongolian-sourced income in a given year.

The general income tax rate applicable to resident taxpayers is 10% on the first MNT6.0 billion (US\$2.1 million) of taxable income and MNT600.0 million (US\$0.2 million) plus 25% on amounts in excess thereof. These rates are applicable to operating and certain other types of income such as sale of goods and services and technical, management, consultancy service and other service fees. Other types of income such as capital gains on the sale of real property, interests, royalty and dividend income are subject to varying rates of income tax ranging from 2% to 40%.

The law provides for a number of tax credits to business entities satisfying certain criteria. For example, for business entities with annual turnover under MNT300 million (US\$0.1 million) and operating in sectors other than mining, oil refining and alcohol and tobacco production, the corporate income tax rate is 1%. The law also provides 90% tax credit to business entities with annual turnover under MNT1.5 billion (US\$0.5 million) if they operate in certain non-restricted sectors specified by law and a 50% to 90% tax credit for business entities operating in remote areas.

Non-resident taxpayers are subject to a 20% income tax rate. This may be reduced to 5% to 15% under an applicable Double Taxation Agreement (“DTA”).

Mongolian law now includes the concept of “beneficial ownership.” The term “beneficial owner” is defined under the Law on Combatting Money Laundering and Terrorism Financing as an individual who solely, or individuals who jointly, directly or indirectly, exercises the major part of control over an entity, its business and assets. The revised General Tax Law introduces the term “beneficial holder” as a person (an individual, legal entity or organization) that holds more than 30% of the shares or participation rights, or exercises more than 30% of the voting rights and is entitled to receive dividends from, a legal entity holding exploration or mining licenses for minerals, petroleum, radioactive minerals, or land possession and use rights, either directly itself or indirectly through one or more levels of an ownership chain. Previously, direct and indirect transfer of land rights, mineral exploration and mining rights was subject to income tax rate at 30%. Under the new Corporate Income Tax Law, transactions involving a full or partial disposal of shares held directly or indirectly by a beneficial holder in a legal entity holding exploration or mining licenses for minerals, radioactive minerals and petroleum, and land possession and use rights, will be treated as a “sale of rights,” which is now subject to a 10% tax.

According to the Investment Law of Mongolia, a foreign investor investing certain amounts in Mongolia may apply for a stabilization certificate which provides stable rates for certain taxes subject to certain conditions for a fixed term. For investments in the mining, heavy industry and infrastructure sectors, the term of the stabilization certificate ranges from five to 18 years, depending on the region where the investment is made and investment amount. For other sectors, the stabilization certificate has a term of five to 15 years, also depending on where the investment is made. The term of the stabilization certificate may be extended by one and a half times for investment projects that (i) engage in the production of exports or import substitutes which are for social and economic development; (ii) have an investment amount not less than MNT500 billion (US\$175.4 million) as of the date the project’s feasibility study is approved; and (iii) will require over three years of construction.

Under the Corporate Income Tax Law, income derived from bond payments, interests and forfeitures from the Government or DBM is exempt from income tax.

### ***Personal Income Tax***

Mongolia's Personal Income Tax Law categorizes individual taxpayers as resident taxpayers and non-resident taxpayer payers. Resident taxpayer is defined as a person either residing in Mongolia for 183 or more days in a given consecutive 12-month period or if their taxable income earned in Mongolia or sourced from Mongolia equals 50% or more of their taxable income.

A resident taxpayer is subject to tax on worldwide income whereas a non-resident taxpayer is subject to tax only on income earned in Mongolia or sourced from Mongolia in a tax year.

Under the Personal Income Tax Law, employment-related income is subject to 10% income tax. Different tax rates apply depending on the type of the taxable income, for example, income from the sale of real property is taxable at the rate of 2% and income from participating in sports competitions, or art performances is taxable at the rate of 5%.

Non-residents with no presence in Mongolia are subject to 20% withholding tax on income from Mongolia including employment related income, operational income and income from property.

Under the Personal Income Tax Law, income derived from bond payments, interest and forfeitures from the Government or DBM is exempt from tax.

### ***Stamp Duties***

Stamp duties are imposed on registration of business entities and organizations, consular services, notary services, registration and transfer of land rights and issuance of licenses, among others. The amount of duty varies according to the type of services involved.

### ***Value Added Tax***

The Value-Added Tax Law was revised in 2015 and came into effect on January 1, 2016. The law was revised with the aim to increase the collection of VAT and reduce black market activity by introducing an electronic registration system for VAT payments. To incentivize taxpayers to register their VAT payments, the revised law enables them to recover up to 20% of VAT payments made, subject to certain conditions.

VAT at the rate of 10% is imposed on the supply of taxable goods and services in Mongolia, and on imports into Mongolia.

### ***Excise Tax***

Excise tax applies to alcoholic beverages, cigarettes, gasoline and diesel, passenger cars, and equipment and devices used for gambling activities and gambling operations. The excise tax rates vary and are set out in the Excise Tax Law. In 2017, the Excise Tax Law was amended to increase the excise tax rate on import, production or sale of alcohol, tobacco and fuel products in certain stages until the end of 2020.

### ***COVID-19-related Tax Measures***

In response to the COVID-19 pandemic, the Government has undertaken a number of measures to support business entities and individual taxpayers affected by COVID-19. The initial measures included exempting Mongolian taxpayers, both individuals and business entities, from paying income taxes, tax penalties and social insurance contributions from April 1, 2020 until October 1, 2020 and, for certain taxpayers, at reduced rates until January 21, 2021. Specifically, business entities with net income in the previous fiscal year of less than MNT1.5 billion (US\$0.5 million) were granted an income tax exemption. Furthermore, taxpayers whose incomes derived from leasing of real property for commercial, educational, and service purposes are eligible to enjoy tax deductions if rents are discounted from February 1, 2020 to July 1, 2021. From February

1, 2020 until January 1, 2022, customs fees and VAT will not be imposed for the import of certain goods such as diagnostic devices, medicines, medical equipment, disinfectants, and medical masks used to diagnose and treat COVID-19. Similarly, food products such as rice, vegetable oil and hay, forage, fodder seeds and wheat are exempt from customs fees and VAT from December 4, 2020 until July 1, 2021. Furthermore, social insurance contribution payers who had reported social insurance contribution obligations between October 1, 2020 and December 31, 2020 but had not paid the contribution within the period specified by law will be exempt from penalties. Also, penalties incurred for late tax payments from February 1, 2020 until July 1, 2021 will be exempted from penalties.

## **Environment**

Mongolia has adopted sustainable development as its guiding strategy. In 2013, it became the first country in the world to join the Partnership for Action on Green Economy (PAGE), a United Nations program that promotes the transition to sustainable practices. In 2014, the parliament adopted a National Green Development Policy, and the Government approved an Action Plan for Implementation of Green Development Policy for the period 2016-2030.

Air quality is a priority for the Government. Almost half (45%) of Mongolia's 3.2 million people live in the capital, Ulaanbaatar, which like other Mongolian cities, have air pollution concentrations much higher than the WHO air quality guidelines for the protection of human health. This has prompted the Mongolian government to identify improving air quality as a key development priority.

Since March 2019, in an effort to reduce air pollution, the Government has imposed a ban on the burning of raw coal in Ulaanbaatar city. And as a substitute, the state-owned Tavan Tolgoi Fuel Company has been supplying "refined" or "smokeless" coal briquettes to Ulaanbaatar ger district residents. The Government believes that the city's air pollution has been decreased substantially as a result.

In November 22, 2019, the Government organized the "Paris Climate Agreement: Nationally Determined Contribution of Mongolia" forum with the participation of over 300 representatives from foreign diplomatic missions in Mongolia, private sector actors, international partner organizations, civil society and media organizations. During the forum, Mongolia's nationally determined contribution to cut global greenhouse gas emissions as a party to the Paris Agreement was announced, and all participants were called to unite their joint efforts to achieve target goals and intensify close collaboration to bring tangible results within the Paris Agreement.

Furthermore, the Minister of Environment and Tourism established a working group in 2019 to define Mongolia's nationally determined contributions to the Paris Agreement, in cooperation with international experts and national consultants, by studying the country's national measures to eliminate greenhouse gas emissions reflected in the state development policy and strategies of the main economic fields of energy, food and agriculture, construction and transportation as well as waste.

As a result, Mongolia's contribution to reduce greenhouse gas emissions by 2030 was calculated at 22.7%, 14% higher than the "business-as-usual" scenario of 2015. The forum culminated in the approval of a national target commitment on the implementation of the Paris Agreement, which was submitted to the UNFCCC Secretariat.

The agreement committed the country to reducing greenhouse gas emissions by 22.7% compared to a "business as usual" scenario. This commitment is expected to lead to reduction of key air pollutants and short-lived climate pollutants including black carbon emissions by 12% and methane by 23%. Air pollution is emphasized as a priority in Mongolia's environmental policies.

Under the 2020 budget, MNT137.6 billion (US\$48.2 million), or 1.2%, of the total budget was allocated for reducing air pollution. This was higher than the amount allocated under the 2019 budget, which was MNT96.2 billion (US\$33.7 million), or 1.0%, of the total budget, primarily due to the Government's continued commitment to improve air quality.

## Foreign Trade

In 2020, Mongolia's major trading partners were China, Russia, the United States, Japan, Switzerland, and the Republic of Korea. Mongolia is currently negotiating free trade agreements with China, the Republic of Korea and the EU, and signed a bilateral Economic Partnership Agreement with Japan in February 2015. The EU is Mongolia's third-largest trading partner as measured by trade volume and value. Mongolian exporters benefit from near tariff-free entries in the EU, the United States, Canadian and Japanese markets through the generalized system of preferences programs, which provide developing countries with preferential access to the respective markets through reduced tariffs.

In the three months ended March 31, 2021, foreign trade resulted in a total external trade turnover of US\$3,524.1 million, of which exports represented US\$2,00.4 million and imports represented US\$1,523.7 million. Total trade turnover increased by US\$1,326.7 million (60.4%) compared to the corresponding period last year, of which exports increased by US\$946.6 million (93.1%) and imports increased by US\$362.1 million (31.2%). The increase in exports compared to the previous year was mainly due to higher exports of copper concentrate and coal, which increased by US\$269.9 million and US\$439.4 million, respectively. The increase in imports was mainly due to increases in the imports of wheat, trucks and passenger cars, which increased by US\$ 49.3 million, US\$90.7 million and US\$ 22.1 million, respectively.

In 2020, foreign trade resulted in a total external trade turnover of US\$12,870.3 million, of which exports represented US\$7,576.3 million and imports represented US\$5,293.9 million. Total trade turnover decreased by US\$876.9 million (6.4%) compared to the previous year, of which exports decreased by US\$43.5 million (0.6%) and imports decreased by US\$833.5 million (13.6%). The decrease in exports by US\$43.5 million compared to the previous year was mainly due to the decrease of US\$17.9 million in copper exports and US\$952.2 million decrease in coal exports, which was partially offset by a US\$1,369.3 million increase in gold exports. Imports decreased by US\$833.5 million compared to the previous year, mainly due to a decrease of US\$82.7 million in gasoline, US\$237.0 million in diesel fuel, US\$121.4 million in passenger cars and US\$152.1 million in trucks.

In 2019, foreign trade resulted in a total external trade turnover of US\$13,747.2 million, of which exports represented US\$7,619.8 million and imports represented US\$6,127.4 million. Total external trade turnover increased by US\$860.6 million (6.7%), of which exports increased by US\$608.0 million (8.7%) and imports increased by US\$252.6 million (8.0%). The increase in exports by US\$608.0 million compared to the previous year was mainly due to the increase of US\$288.2 million in coal and US\$273.9 million in crude or semi-processed gold. The increase in imports by US\$252.6 million compared to the previous year was mainly due to the increase of US\$46.5 million in imports of mineral products, of which US\$92.6 million in diesel fuel and US\$267.0 million in vehicles and their parts.

In 2018, foreign trade resulted in a total external trade turnover of US\$12,886.8 million, of which exports represented US\$7,011.8 million and imports represented US\$5,875.0 million. The US\$811.2 million increase in exports was primarily due to mineral exports increasing by US\$1.1 billion and textile exports by US\$74.3 million. The US\$1,537.7 million increase in imports was mainly due to the increase of US\$339.9 million in mineral products imports, diesel fuel US\$148.8 million, machinery, mechanical equipment, electrical appliances and their spare parts US\$363.2 million, vehicles and their parts US\$274.1 million.

Inadequate road and railway infrastructure is one of the main challenges that Mongolia faces in foreign trade. The Government intends to construct additional road and rail links connecting major mining sites and industrial areas to Russian and Chinese ports and borders and repair existing facilities.

The Government plans to implement a development plan to enhance its import and export procedures by improving some of its ports of entry to meet international standards and adding equipment to support its abilities to inspect goods to ensure proper taxation of mineral exports. Pursuant to these plans, the Government intends to (i) deploy high capacity x-ray inspection equipment, which can be used to accurately determine the content, quality, and quantity of mineral and petroleum products, (ii) build specialized mineral laboratories at points of entry, (iii) establish an operational control and management center under the Customs General Administration, which will use an integrated remote surveillance system to monitor entry points, (iv) introduce "smart gate" monitoring systems to wirelessly record vehicle entries, and (v) upgrade

major ports of entry to meet the international standards. For example, Zamiin Uud is expected to increase its area by eight times, increasing capacities for passengers by four times, trucks by three times and other vehicles by seven times. Gashuutsukhait's total area and export capacity is expected to increase by four times and its cargo, passenger, and vehicle capacities will each increase by three times. Altanbulag is expected to double its total area, and increase its passenger and vehicle capacities by three and four times, respectively.

The following table sets forth total exports from Mongolia by country of destination for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(US\$ millions)</i>					
China .....	3,901.6	5,307.4	6,542.8	6,789.8	5,493.6	1,850.3
Switzerland.....	230.7	0.7	0.7	75.0	1,681.6	1.1
Singapore.....	16.9	26.1	30.0	154.6	151.3	49.9
Great Britain.....	557.2	660.5	172.9	291.1	84.1	2.0
Russia.....	55.8	67.7	85.9	68.1	57.3	27.8
Other .....	154.1	138.2	179.4	241.2	108.6	69.3
<b>Total .....</b>	<b>4,916.3</b>	<b>6,200.6</b>	<b>7,011.8</b>	<b>7,619.8</b>	<b>7,576.3</b>	<b>2,000.4</b>

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to adjustment.

In the three months ended March 31, 2021, the principal destination for exports was China, representing 92.5% of Mongolia's total exports. In 2020, the principal destination for exports was China, representing 72.5% of Mongolia's total exports.

The following table sets forth total imports of Mongolia by country of origination for the periods indicated:

	For the year ended December 31,					For the three months by March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(US\$ millions)</i>					
China .....	1,061.2	1,429.7	1,994.8	2,060.8	1,910.2	595.9
Russia.....	880.4	1,217.3	1,710.3	1,729.9	1,400.0	409.6
Japan .....	330.6	363.2	561.0	585.5	406.7	117.0
United States .....	179.6	269.9	285.5	393.7	245.4	50.1
Republic of Korea .....	197.9	197.7	262.4	267.0	235.8	59.6
Germany.....	120.3	128.4	168.7	188.9	184.8	48.5
Others.....	588.2	731.3	892.3	901.8	911.2	243.0
<b>Total .....</b>	<b>3,358.1</b>	<b>4,337.3</b>	<b>5,875.0</b>	<b>6,127.4</b>	<b>5,293.9</b>	<b>1,523.7</b>

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to adjustment.

In the three months ended March 31, 2021, the principal destination for imports was China, representing 39.1% of Mongolia's total imports. In 2020, the three principal origins for imports were: (i) China, which accounted for 36.1%, (ii) Russia, which accounted for 26.4% and (iii) Japan, which accounted for 7.7% of Mongolia's total imports. The major contributors to imports were mineral products, TV sets and spare parts, and vehicles and their spare parts.

### **Trade Balance**

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus and if imports exceed exports the country has a trade balance deficit.

Mongolia's trade balance surplus for 2020 was US\$2,282.4 million, representing a 52.9% increase over the US\$790.0 million, recorded in 2019. The higher trade balance surplus in 2020 was primarily due to the decrease of US\$833.5 million in imports compared to the previous year, mainly comprising the decrease of US\$237.0 million in diesel fuel, US\$152.1 million in trucks and US\$121.4 million in passenger cars.

In 2019, the trade balance surplus was US\$1,492.3 million compared to a trade balance surplus of US\$1,136.7 million for 2018, primarily due to the increase in exports of US\$608.0 million, comprising the increase of US\$288.2 million in coal and US\$273.9 million in crude or semi-processed gold.

In 2018, the trade balance surplus was US\$1,136.7 million compared to a trade balance surplus of US\$1,836.3 million for 2017, primarily due to the increase of US\$339.9 million in mineral products exports, partially offset by US\$148.8 million in diesel fuel, machinery, US\$363.2 million in mechanical equipment, electrical appliances and their spare parts, and US\$274.1 million in vehicles and their parts.

The following table summarizes Mongolia's trade balance for the periods indicated:

	Exports	Imports	Balance of Trade	Exports as Percentage of Imports
	<i>(US\$ millions)</i>			
2016.....	4,916.3	3,358.1	1,558.2	146.4
2017.....	6,200.6	4,337.3	1,863.3	143.0
2018.....	7,011.8	5,875.0	1,136.7	119.3
2019.....	7,619.8	6,127.4	1,492.3	124.4
2020.....	7,576.3	5,293.9	2,282.4	143.1
2021 <sup>(1)</sup> .....	2,000.4	1,523.7	476.7	131.3

Source: National Statistical Office of Mongolia.

(1) Provisional figures for the three months ended March 31, 2021, subject to adjustments.

### Commodities Exports

The following table sets forth information regarding the commodities exports of Mongolia for the periods indicated:

	For the year ended December 31,				For the three months ended March 31,
	2016	2017	2018	2019	2021 <sup>(1)</sup>
	<i>(US\$ millions)</i>				
Copper.....	1,607.6	1,613.1	2,012.2	1,795.9	621.1
Coal.....	971.7	2,256.8	2,802.5	3,078.8	692.3
Crude oil.....	337,181	374.1	392.0	366.7	150.9
Iron ore.....	249.9	313.4	347.5	576.6	639.7
Gold.....	758.4	595.4	144.5	418.4	1,787.7

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to adjustments.

### Litigation and Arbitration

#### Ongoing Arbitration

On February 20, 2020, Turquoise Hill Resources announced that Oyu Tolgoi LLC has been unable to reach a resolution of its previously-announced dispute with the Mongolian Tax Authority ("MTA") with respect to the MTA's tax assessment, and will be proceeding with the initiation of a formal international arbitration proceeding in accordance with the dispute resolution provisions within Chapter 14 of the Oyu Tolgoi Investment Agreement entered into with the Government in 2009 and Chapter 8 of the Oyu Tolgoi Underground Mine Development and Financing Plan entered into with the Government in 2015. The dispute resolution provisions call for an UNCITRAL arbitration seated in London before a panel of three arbitrators. Mongolia disputes the claims as of the date of this offering memorandum and the arbitration is ongoing.

## **PUBLIC FINANCE**

### **Mongolia's Budget**

The Fiscal Stability Law and the Budget Law regulate policies relating to planning, approving, financing, and implementing the budget of Mongolia. In order to increase transparency and reduce corruption and bureaucracy, the Government has set up a publicly available website, which is administered by the Ministry of Finance and provides information on the state budget. Mongolia's annual budget preparation process includes the preparation of medium-term strategic documentation of the Government's debt management plan, a medium-term budget framework, an annual budget ceiling for each general budget governor, and an annual budget proposal and budget allocation. The Ministry of Finance leads this process, submitting the requisite materials for review by the Cabinet before submission by the Cabinet for the approval of Parliament.

### **2021 Budget**

The 2021 budget was approved by Parliament on November 13, 2020. In the 2021 budget, projected total consolidated revenue is MNT13.1 trillion (US\$4.4 billion), or 31.1% of expected GDP. Total budgeted expenditures are approximately MNT14.0 trillion (US\$4.7 billion), or 33.0% of expected GDP. The structural budget deficit is estimated to be approximately MNT2.2 trillion (US\$0.7 billion), or approximately 5.1% of the expected GDP, which is expected to meet the requirements specified in the Fiscal Stability Law. Key areas of spending include wages, salaries and social security distributions, as well as subsidies and debt service payments under the 2021 budget. The Government aims to focus on the goals of (i) continue supporting businesses and individuals: some measures to protect the income of individuals and promote economic recovery will be continued during the COVID-19 pandemic; (ii) mitigate COVID-19 risks and ensure preparedness: high priority will be given to financing directed at protecting the health of individuals and mitigating COVID-19 related risks; (iii) expand exports: take immediate measures to recover and increase exports; and (iv) accelerate digitization of public services: to reduce red tape and improve efficiency, all public services, including granting licenses, will be offered online.

### **2020 Budget**

The 2020 budget was approved by Parliament on November 13, 2019. An amendment to the 2020 budget was approved by Parliament on August 28, 2020 to reflect the new government structure after the recently concluded Parliamentary election and to implement policies to protect the health and income of citizens, preserve jobs, support businesses, and stimulate the economy in light of the COVID-19 pandemic.

In the 2020 budget, projected total consolidated revenue was MNT10,729.3 billion (US\$3,849.8 million), or 27.7% of expected GDP, representing a decrease of 10.8% from total consolidated revenue in the 2019 supplementary budget. Projected tax revenue for 2020 was MNT8,847.1 billion, comprising primarily value added tax revenue, social security tax revenue and income tax revenue. Non-tax revenue was expected to account for the balance of MNT883.8 billion. The total budgeted expenditures are projected to be MNT14,577.5 billion (US\$5,230.5 million), or 37.7% of projected GDP.

Total revenue for 2020 was MNT10,444.1 billion (US\$3,712.8 million), or 97.3% of amended budgeted revenue. Total expenditures for 2020 were MNT13,904.3 billion (US\$4,942.8 million), which was 95.4% of amended budgeted expenditure. The overall budget deficit in 2020 was MNT3,460.2 billion (US\$1,230.0 million). Total preliminary revenue and grants decreased by 10.9% compared to 2019, and total current expenditures increased by 19.2% compared to 2019.

Pursuant to the Law on Suspension and Postponement of Certain Special Budget Requirements, which was approved by the Parliament on August 28, 2020 in response to the COVID-19 pandemic, compliance with the limit on the budget deficit in the Fiscal Stability Law has been postponed to 2021.

### ***2019 Budget and Actual Results***

The 2019 budget was approved by Parliament on November 3, 2018. In the 2019 budget, total consolidated revenue was projected to be MNT11.1 trillion (US\$4.0 billion), or 31.3% of expected GDP. Total budgeted expenditures were approximately MNT11.6 trillion (US\$4.2 billion), or 32.8% of expected GDP. The structural budget deficit was estimated to be approximately MNT1.9 trillion (US\$0.7 billion), or approximately 5.4% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law.

Total actual revenue for 2019 was MNT12.0 trillion (US\$4.4 billion), or 108.9% of budgeted revenue. Actual 2019 expenditures were MNT11.6 trillion (US\$4.2 billion), which was 100.1% of the budgeted expenditure. The actual budget deficit in 2019 was MNT711.8 billion (US\$260.4 million). Total revenue and grants increased by 18.4% compared to 2018, and total current expenditures increased by 11.9% compared to 2018.

### ***2018 Budget and Actual Results***

The 2018 budget was approved by Parliament on November 14, 2017. In the 2018 budget, total revenue was projected to be MNT7.9 trillion (US\$3.0 billion), or 25.9% of expected GDP. Total budgeted expenditures were approximately MNT9.7 trillion (US\$3.7 billion), or 31.8% of expected GDP. The structural budget deficit was estimated to be approximately MNT2.4 trillion (US\$0.9 billion), or approximately 8.0% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law.

Total actual revenue for 2018 was MNT10.2 trillion (US\$3.8 billion), or 129.4% of budgeted revenue, and actual 2018 expenditures were MNT9.3 trillion (US\$3.5 billion), which was 96.4% of the budgeted expenditure. The actual budget surplus in 2018 was MNT27.9 billion (US\$10.5 million). Total revenue and grants increased by 27.8% compared to 2017, and total current expenditure increased by 3.3% compared to 2017.

### ***Future Heritage Fund***

Mongolia's sovereign wealth fund, the Future Heritage Fund, was established on January 1, 2017, and as of December 31, 2020, the fund had total net assets of MNT1,414.2 billion. The Fund was established for the benefit of the country's current and future generations and is financed from allocations of certain portions of taxes imposed on the mining sector, as designated in each year's budget. The Future Heritage Fund is managed by the Future Heritage Corporation, a wholly state-owned entity, under an investment mandate approved by the Minister of Finance and an investment strategy approved by the board of directors of the Future Heritage Corporation. The Fund was established pursuant to the Law on the Future Heritage Fund, approved by Parliament on February 5, 2016. The Future Heritage Fund took over the liabilities of the Human Development Fund of MNT1,071.9 billion, and that fund was wound down. The Fund will be financed from four main sources: (1) 65% of mineral royalty payments collected under the budget; (2) 20% of excess of base year outturn of mineral revenue; (3) dividends from state-owned companies; and (4) 50% of additional mining revenue collected under the state budget. The law provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation, may be made from the Future Heritage Fund until 2030. The law also provides that the Fund's investments may only be made into portfolios outside of Mongolia. The Fund may invest only in investment grade and registered foreign assets traded in international markets. It does not engage in acquisition of derivatives, nor invest in weapons, narcotics, tobacco, alcohol or other prohibited activities specified in the law.

The Future Heritage Fund's contributions to total Government revenue were MNT620.7 billion, MNT1,040.2 billion and MNT 914.1 billion in 2018, 2019 and 2020, respectively. Under the 2021 Budget, the contribution from the Future Heritage Fund is set at MNT1,180.1 billion, or 9.1% of the 2021 Budget's projected total revenue.

### ***Fiscal Stability Fund***

The Fiscal Stability Law created the FSF in 2010, with the aim of ensuring medium and long term stability of the unified budget of Mongolia. The FSF is financed by various sources, including mining sector revenue

in excess of that estimated in the budget, net budget surplus, the residue of the Government's reserve and risk funds of a given year, the net profit of the FSF and any other income that is distributed by Parliament. Under the Financial Stability Law, a portion of the savings generated by the FSF may be used to finance domestic and foreign investments. In particular, the Government is permitted to use FSF assets to purchase long-term securities issued by DBM. Article 16 of the Fiscal Stability Law, which regulates the FSF, was revised and approved by Parliament on April 14, 2017 and will take effect from January 1, 2024.

## Budgetary Balances

The following table sets forth the budgetary balances of the Government for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
Net surplus (deficit)/ GDP (%).....	(15.3)	(6.3)	0.1	(1.9)	(12.3)	0.4
Primary balance/ GDP (%).....	(11.2)	0.3	5.9	3.4	(7)	0.8
Public sector debt/ GDP (%).....	93.45	93.79	79.97	75.54	86.88	85.08
Real GDP growth (%).....	1.2	5.3	7.2	5.2	(5.3)	15.7
Nominal GDP (MNT billions) .....	23,942.9	27,876.3	32,411.2	37,280.8	36,958.6	9,219.3
Year-on-year inflation (%).....	1.3	6.4	8.1	5.2	2.3	2.5

Source: Ministry of Finance.

(1) Provisional figures subject to further adjustments.

The following table sets forth the components of total revenue and total expenditure for the periods indicated:

	For the year ended December 31,					Budgeted
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(MNT billion)</i>					
<b>Revenue:</b>						
Indirect taxes .....	1,770.8	2,138.2	2,950.3	3,349.7	2,985.8	3,743.2
Direct taxes .....	3,180.1	4,176.9	5,277.4	6,463.5	5,525.8	7,011.2
Non-tax revenue .....	884.1	959.7	1,117.3	1,092.3	952.2	1,043.4
General non tax revenue .....	805.4	896.7	1,027.7	1,003.1	785.0	892.7
Capital revenue .....	1.5	1.2	1.1	0.8	1.2	0.4
Grants and transfers .....	77.2	61.8	88.5	88.4	166.0	150.3
Fiscal Stabilization Fund .....	-	325.7	207.0	94.6	66.2	156.0
Future Heritage Fund.....	-	357.7	620.7	1,040.2	914.1	1,180.1
<b>Total revenue and grants .....</b>	<b>5,835.0</b>	<b>7,958.2</b>	<b>10,172.7</b>	<b>12,040.3</b>	<b>10,444.1</b>	<b>13,133.9</b>
<b>Current expenditure.....</b>	<b>6,613.8</b>	<b>7,043.2</b>	<b>7,350.3</b>	<b>8,228.6</b>	<b>10,828.9</b>	<b>10,968.8</b>
Wages and salaries .....	1,746.8	1,800.4	1,878.9	2,257.0	2,648.9	2,416.7
Purchase of goods and services .....	1,386.5	1,341.0	1,448.6	1,743.5	2,202.3	2,021.0
Interest payments.....	986.1	1,156.5	1,046.4	861.0	939.2	1,137.5
Subsidies to public enterprises .....	229.3	260.6	230.0	298.9	375.1	1,312.0
Current transfers.....	2,265.1	2,484.6	2,746.4	3,086.8	4,663.5	5,081.7
<b>Capital expenditure.....</b>	<b>2,360.2</b>	<b>1,658.1</b>	<b>1,680.4</b>	<b>3,016.7</b>	<b>43,034.2</b>	<b>3,541.7</b>
Building and facilities .....	1,577.0	1,121.7	1,094.6	2,224.0	2,072.0	2,283.9
Capital repairs road fund .....	129.0	67.0	89.9	161.6	145.0	490.0
Other capital expenditure .....	654.3	469.5	495.9	598.2	817.3	767.8
<b>Net lending .....</b>	<b>521.3</b>	<b>316.0</b>	<b>286.5</b>	<b>416.4</b>	<b>41.1</b>	<b>(558.9)</b>
<b>Total expenditure and net lending .....</b>	<b>9,495.3</b>	<b>9,017.3</b>	<b>9,317.2</b>	<b>11,661.7</b>	<b>13,904.3</b>	<b>13,951.6</b>
Structural fiscal balance .....	(3,660.3)	(1,742.5)	27.9	(756.2)	(4,440.4)	(2,153.7)

Source: Ministry of Finance

(1) Approved 2021 Budget.

## ***Revenue***

The Government's revenue consists of tax revenue and non-tax revenue (general non-tax revenue, capital revenue and grants and transfers), FSF revenue and contribution from the Future Heritage Fund, with tax revenue being the largest contributor. Tax revenue accounted for 80.9% and 81.5% of total revenue and grants for 2018 and 2019, respectively. Tax revenue accounted for 81.7% of total revenue and grants for 2020.

In the three months ended March 31, 2021, total revenue and grants increased by 29.3% compared to the corresponding period last year, primarily due to higher tax revenues, primarily from higher value-added tax and customs tax collections.

In 2020, total revenue and grants decreased by 13.6% compared to 2019, primarily due to lower tax revenue due to tax exemptions and other effects related to the COVID-19 outbreak.

In 2019, total revenue and grants increased by 18.4% compared to 2018, primarily due to significant increases in tax revenues. This was driven by higher indirect tax and direct tax revenues in 2019, which increased by 13.5% and 22.5%, respectively.

In 2018, total revenue and grants increased by 27.8% compared to 2017, primarily due to significant increases in tax revenues. This was driven by higher of indirect tax and direct tax revenues in 2018, which increased by 38.0% and 26.3%, respectively.

## ***Expenditure***

The Government's expenditures consist of current expenditure, capital expenditure and net lending, with current expenditure (wages and salaries and purchase of goods and services) being the largest contributor. Current expenditure accounted for 78.9%, and 70.6% of total expenditure and net lending for 2018 and 2019, respectively. Current expenditure accounted for 77.9% of total expenditure and net lending for 2020.

In the three months ended March 31, 2021, total expenditure increased by 15.9% compared to the corresponding period last year, primarily due to higher social welfare expenditures due to COVID-19-related measures .

In 2020, total expenditure increased by 19.7% from December 31, 2019, primarily due to the increase expenditures related to the Child Money Programme and other social welfare programs in response to the COVID-19 outbreak.

In 2019, total expenditure of the Government increased by 24.7% compared to 2018, primarily due to a significant increase in capital expenditure which increased by 79.5% from MNT1.7 trillion in 2018 to MNT3.0 trillion in 2019. This was mainly driven by increased expenditures in building and facilities and capital repair which recorded increase rates of 103.2% and 79.8%, respectively.

In 2018, total expenditure increased by 3.3% compared to 2017, primarily due to a reversal of capital expenditure. The reduction of capital expenditure in 2017 reversed in 2018. This was mainly driven by a significant increase of expenditure in capital repair which recorded an increase rate of 34.2%.

## **Medium Term Fiscal Framework**

The Government's medium-term fiscal policy framework defines policy targets for the medium term based on projected economic conditions for the next three years. The framework provides for the goals of creating a stable tax environment, ensuring fiscal stability, limiting the growth of expenses, stabilizing public debt and ensuring macroeconomic growth. In addition, implementation of the framework is expected to require coordination with the 2020–2024 Government Action Plan. With respect to the specified objectives, the Government aims to (i) enhance tax collection and assessment through upgrading technology; (ii) implement large-scale projects and increase privatization; (iii) improve fiscal discipline and efficiency in expenditures in the budget, including through reduction of public debt; (iv) promote education and health; and (v) improve

benefits from foreign aid and loans. Within the policy framework, Mongolia's economic growth is projected to stabilize at around 6.0% in the medium term as a result of these policies and measures to reduce the social and economic impact of the COVID-19 pandemic. According to the 2022-2024 Fiscal Framework, structural revenue of the Government budget is projected to be MNT13.2 trillion in 2022, MNT14.5 trillion in 2023, MNT16.0 trillion in 2024; and the maximum amount of Government expenditure is projected to be MNT14.9 trillion in 2022, MNT15.9 trillion in 2023 and MNT17.1 trillion in 2024. According to the Medium Term Fiscal Framework, Mongolia's structural budget deficit is projected to be 3.6% of GDP in 2022, 2.8% in 2023 and 2.0% in 2024.

## PUBLIC SECTOR DEBT

### Public Sector Debt

Public sector debt has risen steadily in recent years and, as of March 31, 2021, amounted to US\$11.3 billion. According to the Ministry of Finance of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers, with net present value of its total government debt to GDP ratio at 62.3% and total nominal debt to GDP ratio of 75.5% as of December 31, 2020. According to the Ministry of Finance, the net present value of total government debt-to-GDP ratio did not exceed 70.0% at the end of 2020, in line with the Fiscal Stability Law. The table below sets forth the public sector's domestic debt, external debt and total outstanding debt as of the dates indicated:

	As of December 31, <sup>(1)(2)</sup>					As of
	2016	2017	2018	2019	2020	March 31, 2021 <sup>(3)</sup>
	<i>(US\$ millions)</i>					
Total public sector domestic debt.....	2,328.1	1,426.3	592.0	512.0	398.9	398.9
Nominal GDP (%).....	24.21	12.42	4.83	3.75	3.08	3.08
<b>Public sector external debt</b>						
Government external debt.....	4,868.6	7,321.0	7,184.2	7,806.2	8,653.8	8,450.4
Central Bank external debt.....	1,790.7	2,025.1	2,030.2	1,984.7	2,221.0	2,191.3
Total public sector external debt.....	6,659.4	9,346.1	9,214.4	9,790.9	10,874.8	10,641.5
As a percentage of nominal GDP (%).....	69.2	81.4	75.1	71.8	83.8	82.0
<b>Total public sector debt.....</b>	<b>8,987.5</b>	<b>10,772.4</b>	<b>9,806.4</b>	<b>10,302.9</b>	<b>11,268.8</b>	<b>11,273.7</b>
As a percentage of nominal GDP (%).....	93.4	93.8	80.0	75.5	86.9	85.1
Net present value debt to nominal GDP ratio (%) <sup>(4)</sup> .....	78.8	72.5	58.9	55.6	62.3	N/A

Source: Ministry of Finance; Bank of Mongolia.

- (1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable Bank of Mongolia closing exchange rates as of the respective dates indicated. Excludes Government-guaranteed debt.
- (2) In calculating a percentage of GDP, GDP in U.S. dollars has been converted from Tugriks into U.S. dollars at the applicable Bank of Mongolia closing exchange rates as of the respective dates indicated.
- (3) Provisional figures subject to further adjustments.
- (4) Calculated pursuant to applicable provisions of the Fiscal Stability Law.

Public sector domestic debt is comprised of direct borrowings by the Government and excludes Government-guaranteed domestic debt. Domestic commercial banks are major lenders to the Government.

The public sector's outstanding external debt shown in this section includes external loans outstanding, external securities outstanding and Central Bank debt obligations, including borrowings from international financial institutions and bilateral creditors, such as the World Bank and the ADB, but excludes Government-guaranteed external debt. According to the Debt Management Law approved on February 18, 2015, debt guarantees backed or secured by domestic Government bonds are excluded from the Government debt in the calculation of the Government debt ceiling, to avoid double recording. Under the Fiscal Stability Law, debt of the Bank of Mongolia is not included as government debt.

### Outstanding Government External Debt of Mongolia by Source<sup>(1)</sup>

The table below sets forth the outstanding Government external debt of Mongolia as of the dates indicated.

	As of December 31,					As of
	2016	2017	2018	2019	2020	March 31, 2021 <sup>(2)</sup>
	<i>(US\$ millions)</i>					
Concessional Loans:.....	2,565.1	3,532.4	4,022.2	4,526.8	5,731.7	5,627.3
Multilateral loans <sup>(3)</sup> .....	1,171.4	1,605.4	1,831.2	2,063.7	2,784.7	2,760.4
Bilateral loans.....	1,393.7	1,927.0	2,190.9	2,463.1	2,947.0	2,866.9
Commercial Loans: .....	240.0	240.0	216.0	156.0	60.0	-
Bonds.....	2,063.5	3,548.5	2,946.0	3,123.3	2,862.2	2,823.3
Total .....	4,868.6	7,321.0	7,184.2	7,806.1	8,653.8	8,450.4

Source: Ministry of Finance; Bank of Mongolia.

- (1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable Bank of Mongolia closing exchange rates as of the respective dates indicated. Excludes Government-guaranteed debt.
- (2) Provisional figures subject to further adjustments.
- (3) Multilateral loans refers to concessionary loans provided by international financial institutions such as the IMF, World Bank, ADB, European Bank for Reconstruction and Development and Asian Infrastructure Investment Bank.

### Government External Debt Service Requirements of Mongolia<sup>(1)</sup>

The table below sets forth the Government external debt service requirements of Mongolia for the years indicated.

Period	Principal repayment	Interest repayment	Total
	<i>(US\$ millions)</i>		
2020 .....	813.5	275.5	1,089.0
2021* .....	417.7	262.2	679.9
2022* .....	1,049.3	231.9	1,281.2
2023* .....	1,088.4	165.2	1,253.7
2024* .....	891.4	112.8	1,004.2
2025* .....	325.1	82.8	407.9
2026* .....	925.0	63.5	988.5

Source: Ministry of Finance

- (1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable Bank of Mongolia closing exchange rate as of March 31, 2021. Excludes Government-guaranteed debt.
- \* Projected based on Government external debt outstanding as of March 31, 2021.

### Interest Payments\*

The following table sets forth the level of interest payments of public sector debt for the periods indicated:

	For the year ended December 31,					For the three
	2016	2017	2018	2019	2020	months ended March 31, 2021 <sup>(1)</sup>
	<i>(MNT billions)</i>					
Interest payments.....	765.90	1,155.10	1,045.80	894.50	932.8	132.4
Percentage of GDP .....	3.20%	4.14%	3.23%	2.40%	2.52%	0.4%

Source: National Statistical Office of Mongolia.

- \* Excludes Government-guaranteed debt.
- (1) Provisional figures are subject to further adjustment.

The interest payments in 2017 increased to MNT1.2 trillion, compared to MNT765.9 billion in 2016, primarily because (1) the budget deficit rose to 15.3% of GDP in 2016, requiring large domestic securities issuance, (2) domestic interest rates rose to 18.0%, and (3) the Tugrik depreciated by approximately 25% against the US dollar. However, in 2018 the interest payments decreased to MNT1.0 trillion, compared to MNT1.2 trillion in 2017, primarily because (1) The Government stopped trading in domestic securities since October 2017, (2) budget recorded a surplus of 0.1% of GDP and (3) the exchange rate was relatively stable.

In 2019, interest payments decreased to MNT894.5 billion, compared to MNT1.0 trillion in 2018, primarily due to reasons similar to those in 2018.

In 2020, interest payments increased to MNT932.8 billion, compared to MNT894.5 in 2019, primarily due to an increase in external debt and exchange rate depreciation.

In the three months ended March 31, 2021, interest payments decreased to MNT132.4 billion, compared to MNT185.3 billion in the corresponding period of the preceding year, primarily due to a decrease in commercial external debt.

### **Future Financing**

According to the National Statistical Office of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers, with the ratio of the present value of its total Government debt to GDP at 55.6% as of December 31, 2019 and at 62.3% as of December 31, 2020. The Government is permitted to borrow additional external debt as provided for in the budget.

Going forward, the Government intends to reduce its ratio of external debt versus domestic debt to reduce foreign currency exposure. The Government also intends to lengthen the average time to maturity for its domestic debt by diversifying its bondholders and introducing new auctions such as bundling and syndicated issuances. The Government expects to improve its debt management practices to align with international best practices. Parliament approved the Medium-Term Debt Management Strategy 2019-2022 in May 2019. The strategy's objectives for future financing include:

- refinancing four upcoming maturities of external bond financing during the period from 2021 to 2024, totaling US\$2.9 billion. The Government does not intend to issue any external securities other than for refinancing purposes;
- creating a commercial infrastructure for domestic government securities utilizing modern technology. The Government expects to ensure an open, competitive and accessible market to improve liquidity of the Government's securities, as well as increasing opportunities for foreign and domestic investors to participate in this trade;
- not increasing contingent liabilities, such as government guarantees and "build-transfer" concessions;
- assessing the impact of the Government's potential exposure to contingent liabilities and develop a system to mitigate risks; and
- using concessional loans to finance economically and socially efficient projects. The Government will prioritize the utilization of concessional loans from foreign countries and international organizations and accelerate the implementation of projects financed with these loans.

## BALANCE OF PAYMENTS

### Overview

Mongolia's balance of payments measures the level of Mongolia's current, capital and financial accounts. The current account measures the levels of imports and exports of goods and services and net transfers, while the capital account and financial account measure the levels of investments and debts. A balance of payments surplus indicates a net inflow of foreign currencies, while a balance of payments deficit indicates a net outflow of foreign currencies. The balance of payments is dependent on international economic developments, as well as domestic economic policies. The Bank of Mongolia uses various monetary instruments to implement several programs to stabilize the economy and maintain inflation target.

The following table sets forth the components of the overall balance of payments for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,	
	2016	2017	2018	2019	2020	2020	2021 <sup>(1)</sup>
	<i>(US\$ millions)</i>						
<b>Current account:</b>							
Goods and services balance ...	0	278	(1,303)	(834)	305	(669)	123
Goods balance .....	1,338	1,494	676	1,158	1,756	(297)	370
Exports (FOB) .....	4,804	5,834	6,557	7,183	6,991	854	1,889
Imports (FOB) .....	3,466	4,341	5,881	6,025	5,235	1,151	1,519
Services balance .....	(1,338)	(1,216)	(1,978)	(1,992)	(1,450)	(372)	(247)
Net income balance .....	(911)	(1,613)	(1,228)	(1,569)	(1,423)	(129)	(385)
Net current transfers .....	212	180	324	241	273	75	54
Total current account .....	(700)	(1,155)	(2,207)	(2,162)	(675)	(723)	(207)
<b>Capital and financial account:</b>							
Capital account .....	91	78	92	161	103	25	31
Financial account .....	(812)	(2,599)	(2,091)	(2,678)	(1,504)	(656)	(408)
Net direct investment .....	4,171	(1,446)	(2,137)	(2,316)	(1,693)	(369)	(595)
Direct investment abroad .....	14	49	37	127	26	10	(0.4)
Direct investment in							
Mongolia .....	(4,156)	1,494	2,174	2,443	1,719	379	595
Portfolio investment .....	(487)	(493)	(61)	(379)	563	(41)	(72)
Other investment .....	(4,534)	(677)	119	5	(369)	105	252
Total capital and financial account .....	903	2,677	2,183	2,838	1,607	681	439
<b>Net errors and omissions</b>	(221)	(62)	(118)	(224)	(146)	(42)	(62)
<b>Overall balance of payments</b> .....	<b>(18)</b>	<b>1,460</b>	<b>(142)</b>	<b>453</b>	<b>787</b>	<b>(350)</b>	<b>170</b>
<b>Reserves and related items..</b>	<b>(18)</b>	<b>1,460</b>	<b>(142)</b>	<b>453</b>	<b>787</b>	<b>(350)</b>	<b>170</b>

Source: Bank of Mongolia.

(1) Provisional figures subject to adjustments.

For the three months ended March 31, 2021, the current account reflected a deficit of US\$207.4 million and the capital and financial account reflected a surplus of US\$439.3 million, resulting in a surplus in the overall balance of payments of US\$170.4 million. The current account deficit decreased by 71.3% for the three months ended March 31, 2021 compared to the corresponding period of the preceding year, primarily due to an increase in the goods balance. The surplus in the capital and financial account increased by 32.7% for the three months ended March 31, 2021 compared to the corresponding period of the preceding year, primarily due to increased inflows in direct investment in Mongolia, offset in part by outflows in the other investment account.

For 2020, the current account reflected a deficit of US\$674.6 million and the capital and financial account reflected a surplus of US\$1,607.1 million, resulting in a surplus in the overall balance of payments of US\$786.9 million. The current account deficit decreased by 68.8% for 2020 compared to 2019, primarily due to increases in the goods balance. The surplus in the capital and financial account decreased by 43.4% for 2020 compared to 2019, primarily due to reduced inflows in direct investment in Mongolia as a result of COVID-19 and increased outflows in the portfolio investment account, offset in part by inflows in the other investment account.

For 2019, the current account reflected a deficit of US\$2,161.7 million, and the capital and financial account reflected a surplus of US\$2,838.5 million, resulting in a surplus in the overall balance of payments of US\$452.9 million. The current account deficit decreased by 2.0% for 2019 compared to 2018 primarily due to increases in the goods balance. The surplus in the capital and financial account increased by 30.0% for 2019 compared to 2018 primarily due to inflows in portfolio investment and net direct investment, offset in part by inflows in the direct investment abroad and direct investment in Mongolia account.

For 2018, the current account reflected a deficit of US\$2,206.8 million, and the capital and financial account reflected a surplus of US\$2,182.9 million, resulting in a deficit in the overall balance of payments of US\$141.7 million. The current account deficit increased by 91.1% in 2018 compared to 2017 primarily due to a significant decrease in goods balance. The surplus in capital and financial account decreased by 18.0% for 2018 compared to 2017 primarily due to increases in outflows in net direct other investment and direct investment in Mongolia.

## Foreign Investment

Parliament enacted the Investment Law on October 3, 2013 with effect from November 1, 2013. The Investment Law removed most of the requirements for prior Government or Parliamentary approval of any private investments in certain designated strategic sectors of Mongolia (including the banking and finance, media and communications and minerals sectors) that were previously required under SEFIL. This law sets out the rights and responsibilities of investors, establishes authority to issue tax stabilization certificates, and also establishes the powers and functions of a government agency to be responsible for promoting and regulating investment. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in one of the strategic sectors identified in the Investment Law. The Investment Law also replaces the Foreign Investment Law of Mongolia (1993). See “*Mongolia—Legal Reform—Laws Affecting the Mining Sector—Regulations Affecting Foreign Direct Investment.*”

The following table sets forth net direct investment by industry for the periods indicated:

	For the year ended December 31,					For the three months ended March 31,
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(US\$ millions)</i>					
Geology exploration, production and oil.....	(4,244.80)	1,193.33	1,746.8	1,958.3	1,335.9	591.1
Banking and financial service .....	30.7	33.66	115.9	106.3	(48.6)	15.2
Construction.....	46.5	(126.83)	30.1	20.4	(38.1)	(17.3)
Information and communication technology.....	1.1	(16.59)	17.9	4.5	5.5	0.4
Others.....	25.5	362.89	226.9	226.8	438.4	5.7
<b>Net direct investment .....</b>	<b>(4,170.9)</b>	<b>1,446.5</b>	<b>2,137.8</b>	<b>2,316.3</b>	<b>1,693.1</b>	<b>595.1</b>

Source: Bank of Mongolia.

(1) Provisional figures subject to adjustments.

Net direct investment increased to US\$2,137.8 million for 2018 compared to US\$1,446.5 million for 2017, primarily due to the increased investments in geology exploration, production and oil, banking and financial service industry and the reversal of cash inflow from the investments in construction and information and communication technology industry.

Net direct investment further increased to US\$2,316.3 million for 2019 compared to US\$2,137.8 million for 2018, primarily due to further increase in geology exploration, production and oil industry.

Net direct investment decreased to US\$1,693.1 million for 2020 compared to US\$2,316.3 million for 2019, primarily due to decreased investments in geology exploration, production and oil, banking and financial service industry, and wholesale and retail industry.

Net direct investment increased to US\$595.1 million in the three months ended March 31, 2021 compared to US\$369.2 million in the corresponding period last year, primarily due to increased investments in other industry.

## Reserves

The following table sets forth the level of the official international reserves position as of the dates indicated:

	As of December 31,					As of
	2016	2017	2018	2019	2020	March 31,
	(US\$ millions)					2021 <sup>(1)</sup>
Gross foreign exchange reserves....	1,296.3	3,008.1	3,549.1	4,348.6	4,534.2	4,774.6

Source: Bank of Mongolia.

(1) Provisional figures subject to adjustments.

The accumulation of foreign exchange reserves by the Bank of Mongolia is conducted through (i) surpluses in the balance of payments from export revenue and net inflow of foreign direct investment, (ii) monetizing gold purchased from local or foreign producers and (iii) receiving foreign loans and grants.

Due to the accumulation of gold reserves and continuation of development in the large mining project, gross foreign exchange reserves increased to US\$3,549.1 million as of December 31, 2018. As of December 31, 2019, Mongolia's foreign exchange reserves were equivalent to US\$4,348.6 million, reflecting an increase compared to December 31, 2018, primarily due to the further accumulation of gold reserves, increased coal export revenues, elevated commodity prices, and continuation of development in the large mining project. As of December 31, 2020, foreign exchange reserves increased to US\$4,534.2 million, reflecting a 4.3% increase from December 31, 2019 mainly the due to the increase in export revenue in the fourth quarter of 2020 caused by higher prices of commodities such as coal, iron ore, and copper.

As of March 31, 2021, foreign exchange reserves increased to US\$4,774.6 million, reflecting a 5.3% increase from December 31, 2020 mainly due to the increase in export revenues, higher commodity prices, and direct investment inflows from a large mining project.

The Bank of Mongolia aims to keep the exchange rate flexible, as a shock-absorber for the commodity-dependent economy, and continue to maintain US\$4.5 billion in foreign exchange reserves.

## Exchange Controls

Under the Currency Settlement Law of 1994, Mongolian commercial banks require approval from the Bank of Mongolia to undertake transactions in amounts that may affect the exchange rate of the Tugrik. There are no other restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls. However, in the light of the economic disruptions following the COVID-19 pandemic, the Bank of Mongolia and the Government implemented certain policies against "dollarization" of the economy, including restricting transfers of foreign currencies between accounts. These restrictions, which are scheduled to remain in place until June 30, 2021, do not, however, apply to foreign transfers. Foreign currency is generally freely transferable within or from Mongolia. Foreign exchange policy is under the supervision of the Ministry of Finance and the Bank of Mongolia and remains subject to modification.

Parliament adopted the Law of Mongolia on Settlement of Payments in National Currency (the "National Currency Law") on July 9, 2009. This law is designed to prohibit any settlement of transactions in foreign currency and to ensure the stability of the national currency. These measures have reportedly been implemented to avoid any "dollarization" of the national economy. The National Currency Law prohibits settling payment for goods and services in the territory of Mongolia in foreign currency as well as setting prices of such goods and services and making advertisements in foreign currency in the territory of Mongolia unless the Bank of Mongolia has granted such permission. However, banking and financial institutions are exempted from the National Currency Law.

The Bank of Mongolia has a floating exchange rate regime, which allows currency fluctuations that are consistent with the prevailing macroeconomic environment. The Bank of Mongolia directly intervenes in the foreign exchange market to resist excessive and undesirable volatility in the currency market, and to provide commercial banks with financial derivative products for liquidity management. Foreign investors are free to repatriate dividends and principal without the necessity of obtaining any governmental approvals. The Tugrik can be converted into foreign currencies through any Mongolian commercial bank or licensed currency exchange.

The Bank of Mongolia does not target any specific rate of exchange through policies or controls. Rather, it intervenes only to mitigate volatility caused by sudden short-term mismatch of supply and demand. The Bank of Mongolia does not expect any change in this policy, and expects to continue to preserve the floating exchange rate regime and permit determination of the exchange rate by the free market.

## MONETARY AND FINANCIAL SYSTEM

### Monetary System

#### *Bank of Mongolia*

According to the Central Bank Law, the main objective of the Bank of Mongolia is to ensure the stability of the Tugrik, Mongolia's currency. Within this main objective, the Central Bank Law states that the Bank of Mongolia is to "promote balanced and sustainable development of the national economy, through maintaining the stability of money, financial markets and the banking system." The Bank of Mongolia formulates and implements monetary policies to achieve its main objective. In addition, the Central Bank Law granted far-reaching financial oversight authority to the Bank of Mongolia and its functions include management of interest rates and exchange rates, oversight of government borrowing, supervision of interbank settlements and lending, printing and issuance of bank notes and coins, management of Mongolia's foreign currency reserves, and financial supervision of commercial banks. The Bank of Mongolia is the supervisory and regulatory body overseeing all banks operating in Mongolia including DBM. The Bank of Mongolia has autonomy from the Government and its management. Each of the Governor, First Deputy Governor and the Deputy Governor is appointed by Parliament for a term of six years.

#### *Monetary Policy*

The Bank of Mongolia formulates its Monetary Policy Guideline annually and submits it to Parliament for approval by October 1 of each year. As stated in the Central Bank Law, the core mandate of the Bank of Mongolia is to ensure the stability of the Tugrik. The core mandate of the Bank of Mongolia also includes the maintenance of low and stable inflation. Progress in achieving this objective is measured by the attainment of inflation objectives that are set for the upcoming years in the Monetary Policy Guideline. The Bank of Mongolia adopted a monetary policy framework featuring an eclectic anchoring strategy with inflation targets; under this framework, an official policy rate was introduced and has been used since 2007. Using the policy rate (the one-week central bank bill rate) as its main stabilization instrument, the Bank of Mongolia aims to stabilize interbank market rates and public expectations of the long-term interest rates to create a positive impact on macroeconomic conditions and consequently ensure the attainment of price stability.

The Bank of Mongolia has three main tools at its disposal to implement monetary policy:

- open market operations: (i) conducting discretionary repo auctions at up to two years maturity to inject liquidity into the market; and (ii) establishing short- and long-term swap/forward agreements with commercial banks.
- standing facilities: (i) interest rates on standing facilities to provide a ceiling and a floor to the money market rate; (ii) the overnight deposit rate; and (iii) the overnight repurchase agreement financing rate.
- other facilities: the use of the reserve requirement ratio, which aims to control the money supply and manages banks' liquidity.

The following table sets forth the policy rates set by the Bank of Mongolia as of the dates indicated:

	<u>Policy Rate</u>
January 14, 2016.....	12.0%
May 5, 2016.....	10.5%
August 18, 2016.....	15.0%
December 19, 2016.....	14.0%
March 17, 2017.....	14.0%
June 15, 2017.....	12.0%
September 15, 2017.....	12.0%
December 25, 2017.....	11.0%
March 26, 2018.....	10.0%
June 15, 2018.....	10.0%
September 20, 2018.....	10.0%

	<b>Policy Rate</b>
November 27, 2018.....	11.0%
December 14, 2018.....	11.0%
March 21, 2019.....	11.0%
June 19, 2019.....	11.0%
September 17, 2019.....	11.0%
December 20, 2019.....	11.0%
March 11, 2020.....	10.0%
April 13, 2020.....	9.0%
June 26, 2020.....	9.0%
August 07, 2020.....	9.0%
September 14, 2020.....	8.0%
November 23, 2020.....	6.0%
December 18, 2020.....	6.0%
March 24, 2021.....	6.0%

Source: Bank of Mongolia.

The Monetary Policy Committee (“MPC”) met on March 11, 2020 and lowered the policy rate by a full percentage point to 10.0% and reduced the reserve requirements on banks’ liabilities in domestic currency by two percentage points to 8.5% in accordance with possible risks related to the spread of COVID-19. The MPC stated it believes the main risks were an economic slowdown due to weaker external demand, lower commodity prices, and sluggish economic activities from both the external and domestic side and decided to take policy measures to relieve financing costs of banks, support financial intermediation, and stimulate economic growth. In addition, the Bank of Mongolia also introduced an interest rate corridor mechanism to help reduce fluctuations in interest rates and improve its ability to manage short-term interest rates. The Bank of Mongolia currently sets the range of the interest rate corridor as one percentage point above and below its policy rate.

Considering the macroeconomic and financial outlook, its prospects, and uncertainties in the domestic and external environment, on April 13, 2020 the MPC decided on the comprehensive policy measure of lowering the policy rate by 1 percentage point to stimulate economic growth and extending the maturity on consumer loans once up to 12 months for lenders experiencing difficulties, hence reducing monthly loan repayments.

On September 14, 2020, the MPC further lowered the policy rate by one percentage point to 8.0%, and introduced long-term repo financing instrument. This decision was aimed at supporting new loans issued by the banking sector, hence, alleviating the economic downturn due to the COVID-19 pandemic.

In November 2020, a strict lockdown measure was implemented in Mongolia in response to the domestic spread of COVID-19. On November 23, 2020, the MPC decided to (i) cut the policy rate by two percentage points to 6.0%, (ii) reduce the reserve requirements on banks’ domestic currency liabilities by 2.5 percentage points to 6.0%, (iii) continue to implement loan restructuring measures until July 2021, and (iv) introduce a long-term refinancing instrument aimed at supporting SMEs and non-mining exporters. This set of decisions was directed at minimizing the adverse effect of the pandemic and slowing down the domestic economic downturn as well as ensuring the stability of the banking sector.

On December 18, 2020, the MPC decided to keep the policy rate unchanged at 6.0% and issue up to MNT 250.0 billion under the long-term repo financing to support SMEs and non-mining exports in the first quarter of 2021. This decision was made considering the current state and outlook of the economy and financial markets, as well as the uncertainties and risks inherent in the domestic and external environments.

On March 24, 2021, the MPC kept the policy rate unchanged at 6.0% and provided up to MNT350 billion under the long-term repo financing instrument in the second quarter of 2021. The scope of this funding instrument was expanded to include businesses in the manufacturing and services sectors, as well as entities with more than 200 employees operating in the trade sector. The decision was made considering the current state and future outlook of the economy and financial markets, as well as to risks inherent in the domestic and foreign environments.

In addition to the measures taken by the Bank of Mongolia, the Government has been implementing the following, which it expects to increase foreign currency inflows to Mongolia:

- amend laws and regulations relating to foreign direct investment and mining to encourage foreign investment in Mongolia;
- work closely with financial institutions to raise additional capital; and
- encourage the rebound observed in the commodities market, which the Government expects to coincide with the commencement of operations of Phase II of the Oyu Tolgoi mine.

As part of its strategy to maintain foreign currency reserves, the Government plans to fully utilize the current RMB15.0 billion currency swap between the China’s central bank, People’s Bank of China, and the Bank of Mongolia, which was extended for an additional three-year period in July 2020.

### **Money Supply**

In recent years, increases in both net foreign assets and net credit to the Government, mainly in the form of financing of the budget deficit, have been the main determinants of M2 money supply. The following table sets forth the level of the money supply according to different measures as of the dates indicated:

	As of December 31,					As of
	2016	2017	2018	2019	2020	March 31, 2021 <sup>(1)</sup>
	<i>(MNT billions)</i>					
Currency outside banks.....	562.9	611.7	670.5	614.5	753.2	739.1
Current account in domestic currency.....	1,584.8	2,214.3	3,360.5	3,289.6	3,444.2	3,588.9
Total (M1).....	2,147.7	2,825.9	4,030.9	3,904.1	4,197.4	4,328.0
Quasi money .....	10,010.8	13,035.2	15,443.7	16,929.5	20,022.6	20,807.9
Money (M2).....	12,158.5	15,861.2	19,474.7	20,833.6	24,220.0	25,135.9

Source: Bank of Mongolia

(1) Provisional figures subject to further adjustments.

### **Financial System**

#### **Overview**

As of March 31, 2021, the Mongolian financial sector comprised 12 commercial banks, 11 of which were privately owned and one state-owned, one state development bank and 530 licensed non-banking financial institutions. As of March 31, 2021, the leading banks in the industry by the size of assets, loans and deposits were Trade and Development Bank of Mongolia, Golomt Bank, Khan Bank and Xac Bank and State Bank. The non-bank financial sector, including the insurance sector and the stock market, is significantly smaller. The banking and financial sectors of Mongolia are regulated by the Bank of Mongolia and the Financial Regulatory Commission (“FRC”). The Bank of Mongolia is responsible for monitoring the banking system, conducting off-site and on-site examinations and establishing standards for the industry as a whole. Under the framework of the EFF program, the Bank of Mongolia has undertaken to conduct an independent asset quality review of all Mongolian commercial banks by employing independent international consultants. On August 18, 2017, the Bank of Mongolia announced that PricewaterhouseCoopers Česká republikas.r.o. was selected to conduct the asset quality review of the Mongolian commercial banks. The result of the review showed the capital shortfall in the banking system amounted to 1.9% of 2017’s GDP to meet capital adequacy ratio requirement.

#### **Recent Reforms in the Banking Sector**

The Bank of Mongolia has effectively implemented mid-term supervisory strategies spanning 2016-2019 with respect to banking supervision based on the evolving international standards after the 2008 global financial crisis. Within this policy framework, banking regulations are being strengthened through a forward-looking and risk-based approach rather than the previous compliance-based approach. In addition, the Bank of Mongolia has commenced the implementation of Basel III banking standards. In September 2020, the Bank of Mongolia approved a three-year Banking System Reform Program (much broader in scope

and scale compared to its previous strategy) on attaining sector stability, reliability, transparency, openness, public responsibility, accessibility and digitalization. By implementing this program, on one hand, the banking system will be well-capitalized, its risk-bearing capacity will be strengthened, its ownership will be public in conformity with international standards, external oversight of banks will be introduced, its operations will become more transparent, and decision-making, execution and oversight powers — the key factors of prudent governance — will be decentralized, establishing a mutually controlled balance of power and internal control system. On the other hand, a regulatory legal environment in line with international standards and best practices will be created and risk-based supervision shall be introduced. As a result, the confidence of foreign and domestic investors in banks is expected to increase, financial intermediation is expected to expand and deepen, and thus the banking system is expected to contribute to a long-term sustainable, inclusive and positive economic growth.

In 2018, the fundamental laws governing the banking sector, both the Banking Law and the Law on Central Bank. The 2018 amendments significantly increased the Bank of Mongolia's powers to require banks to increase capital, impose stricter 'fit and proper' requirements for bank board members and executives, and also enhanced the framework for intervention. Following these amendments to the Banking Law, the Bank of Mongolia now has full authority to demand that banks hold additional capital above the regulatory minimum, to require banks to use net profits to strengthen their own funds, and to impose specific requirements on liquidity of a bank. Also, the amended Banking Law sets out extensive powers for the Bank of Mongolia to introduce early intervention measures and financial restructuring of banks. With the renewed bank resolution framework, problem banks may be placed into provisional administration, restructured or liquidated depending on the severity of the bank's issues and its systemic importance.

Prudential norms, first introduced in 1996 closely mirror key international norms, particularly the capital adequacy principle. The minimum capital adequacy ratios as of December 31, 2015 ("CARs") for commercial banks had been currently at 9.0% for the Tier I capital ratio and 14.0% for the systemically important banks and 12.0% for the other banks. The Bank of Mongolia introduced capital buffer requirements in July 2019 on banks tied to their Tier I capital, where in addition to 9.0% Tier I and 12.0% total capital requirements, banks are required to maintain additional buffer ranging between 2.0% and 4.0% depending on whether the bank in question is of systemic importance. The buffer requirements were expected to be phased in gradually within the next two years, but had been postponed due to the banking system forbearance measures due to the COVID-19 pandemic.

On September 15, 2017, the Bank of Mongolia established a working group on developing a draft Strategy Document on Lowering Lending Rates ("Lending Rate Strategy"). The Lending Rate Strategy was approved on June 12, 2018 jointly by the Minister of Finance, the Chairman of the FRC, the Governor of the Bank of Mongolia and the CEO of the DICOM. The Lending Rate Strategy sets out 11 strategic objectives including keeping low and stable level of inflation, increasing foreign exchange reserves and keeping external debt management at a stable level, maintaining fiscal discipline and improving interconnectivity with macroeconomic policies, diversifying the economy and increasing domestic deposits, improving the impact of policy interest rate modification on interest rates, decreasing dollarization in the financial sector, improving strength and resilience of the financial sector and developing the securities market and improving governance of the government authorities and banking and financial organizations.

A new Lending Rate Strategy was approved by the Bank of Mongolia in August 2020 with four main goals to be carried out by pertinent institutions in 2024. The four main goals of the Strategy objectives are namely: 1) to foster a stable macroeconomic environment for lowering the funding costs of loans; 2) to lower risk-related costs of loans; 3) to reduce operational costs of banks; and 4) to minimize financing costs by promoting development of the stock market and generating competition.

On January 12, 2018, various amendments were introduced to the Central Bank Law of Mongolia. The amendments seek to increase the independence of the Bank of Mongolia from the Government and to bring its decision-making processes in line with best international practices. In particular, decisions relating to the implementation of monetary policy and supervision of banks must be first discussed by the relevant committees on monetary policy or bank supervision and budgetary activities which are not relevant to the objectives of the Bank of Mongolia are to be minimized. This is reflected in clarifications made under the amendments to the Central Bank Law of Mongolia with respect to the activities of the Bank of Mongolia

such as the provision of loans to banks, the use of financial instruments and the monitoring and supervision of banks as well as the monetary policy implementation tools to be used by the Bank of Mongolia. The amendments also provide for the Central Bank to provide loans for the supporting the liquidity of banks, which are secured by approved bank assets. On January 18, 2018, the Parliament approved comprehensive amendments to the Banking Law and on June 22, 2018, the Parliament approved the Law on Ensuring Banking Sector Stability. This law aims to address capital adequacy issues concerning Mongolian commercial banks following the AQR carried out within the EFF program and conditions under which a government bailout of commercial banks can take place.

The Banking Law was further amended in January 2021. The amendment addresses the issues of bank ownership concentration and risks relating to it. In addition, the amendment stipulates that all domestic systemically important banks (“D-SIBs”) are required to go public by June 30, 2022, while non-D-SIBs are required to become joint stock companies either private or public. Furthermore, the amendment limits bank ownership concentration by imposing a 20% cap on single shareholder (individually and/or collectively with their related parties) ownership for all banks, which is required to be met by the end of 2023.

In response to the effects of COVID-19, the Bank of Mongolia has issued temporary forbearance measures to relieve burdens on borrowers and banks hit by the outbreak up until June 30, 2021. The banking system soundness is most likely to be affected by COVID-19 even after the temporary relief measures, and Bank of Mongolia considers it important to have an effective exit strategy in place to minimize the negative effects on banks and borrowers from transitioning to regular regulatory requirements. Hence, the Bank of Mongolia is currently working on developing an exit strategy for transition from the relief measures under various scenarios. The relief measures are effective until June 30, 2021 and includes the following:

- classification requirements on retail loans are loosened with expanded days-past-due criteria;
- assets that were restructured after January 31, 2020 will not be considered restructured and the classification will not be downgraded;
- lowered the liquidity ratio from 25% to 20%;
- postponed the phase-in schedule of each additional capital buffer by one-year; and
- suspended penalty measures for not meeting the additional capital buffer requirements, including prohibitions of bonuses and performance-based payments to members of banks’ board and management teams.

### ***Development Bank of Mongolia (DBM)***

On March 25, 2011, DBM was established under the Law on the Development Bank of Mongolia, which was adopted on February 10, 2011. DBM is wholly-owned by the Government and is the only policy bank in Mongolia mandated to finance large-scale development projects and programs to improve living standards in Mongolia and enhance Mongolia’s economic competitiveness. DBM was established to foster the economic and infrastructure development of Mongolia by providing long-term financing for policy-oriented projects consistent with the Government’s macroeconomic development strategy. DBM’s current principal activities focus on raising funds and mobilizing resources to support the development of industries encouraged by the Government. These industries include infrastructure, railway and road transportation, energy, mining supply chain industries and export-oriented and import-substitution industries. Social impact housing programs for low-income families is one of DBM’s largest projects implemented. On February 10, 2011, Parliament passed the Law on the Development Bank of Mongolia, which provides the legal framework for the establishment and operation of DBM. DBM is mandated to finance large-scale development projects and programs to improve living standards in Mongolia and enhance Mongolia’s economic competitiveness.

Pursuant to Parliament Resolution No. 81 dated December 28, 2016, DBM transferred its loan portfolio to be repaid from the state budget to the Ministry of Finance. Furthermore, DBM’s capital was increased by MNT1.0 trillion.

The Revised DBM Law, which was adopted in 2017, further clarifies the relationship between Parliament and the Government as regards the operations of DBM, encourages prudent governance, increases oversight of DBM’s lending operations, reduces financing obtained from the Government and increases independence from the Government. For example, the Revised DBM Law prohibits the Parliament and Government from dictating which specific projects to finance. These amendments are expected to more clearly delineate the decision-making process and authority of the Government and DBM. As a result, DBM changed its business model by implementing a bottom-up approach to finance only commercially bankable projects.

In January 2014, DBM issued ¥30.0 billion of bonds guaranteed by the Government and the Japan Bank for International Cooperation due 2023 with an interest rate of 1.52% per annum. The guarantee issued by the Japan Bank for International Cooperation for 95% of the principal and interest payments. The bonds were rated AA and Aa3 by S&P and Moody’s, respectively. The planned use of proceeds from the issuance of the notes was as follows:

- approximately ¥16.4 billion was used to finance light industry projects, including upgrades to cashmere and wool processing equipment;
- approximately ¥4.8 billion was used to finance long-term mortgage loans; and
- approximately ¥3.0 billion was used to finance SME development funds.

In August 2014, DBM obtained a US\$300.0 million syndicated loan guaranteed by the Government with a term of five years. This loan was arranged by Credit Suisse, EXIM Bank of China and Sumitomo Mitsui Banking Corporation.

On August 21, 2014, DBM entered into a facility agreement with China Development Bank for a loan of US\$162.0 million, guaranteed by the Government, with a term of eight years.

DBM has also entered into other facility agreements, credit lines and financing arrangements with various international financial institutions to conduct money market operations and also to fund projects in Mongolia.

In 2018, DBM issued US\$500.0 million senior notes in a liability management exercise to refinance its previously issued U.S. dollar debt. As of June 15, 2021, 30.6% of DBM’s external debt of US\$312.6 million is guaranteed by the Government.

### ***Deposit Funding and Lending Activity***

The following table sets forth the year-on-year and period-on-period credit and deposit growth of the banking sector as of the dates indicated:

	As of December 31,			As of March 31,		
	2016	2017	2018	2019	2020	2021 <sup>(1)</sup>
	<i>(MNT billions)</i>					
Loans.....	12,337.5	13,506.5	17,082.4	17,932.2	17,034.3	17,467.1
Year-on-year (%) .....	6.1	9.5	26.5	5.0	(5.0)	2.8
Deposits <sup>(2)</sup> .....	11,289.2	14,051.5	18,056.3	19,539.1	23,312.1	24,259.9
Year-on-year (%) .....	29.7	24.5	28.5	8.2	19.3	25.5
Loan-to-deposit ratio ("LDR") .....	109.3%	96.1%	94.6%	91.8%	73.1%	72.0%
Liquidity ratio <sup>(3)</sup> .....	41.4%	45.0%	40.9%	39.5%	46.4%	46.8%

Source: Bank of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) "Deposits" include current accounts and deposits (excluding deposits of Development Bank of Mongolia).

(3) The minimum liquidity ratio set by the Bank of Mongolia is 20.0%.

The following table sets forth credit extended to banks by the Bank of Mongolia as of the dates indicated:

	As of December 31,					As of
	2016	2017	2018	2019	2020	March 31,
	(MNT billions)					2021 <sup>(1)</sup>
Credit extended to banks .....	1,471.3	1,269.7	937.4	1,224.8	1,166.3	1,263.5

Source: Bank of Mongolia.

(1) Provisional figures subject to further adjustments.

### Bank Asset Quality

In June 2019, the Bank of Mongolia and the Ministry of Finance jointly revised the Bank of Mongolia's regulation on asset classification, provisioning and allocation to improve regulatory oversight over loan provisioning and asset classification. In accordance with these regulations, an asset is classified based not only on number of days-past due, but also based on qualitative criteria such as creditworthiness or previous credit history of an obligor. That is, even if an asset is not past due, it can be classified as non-performing based on qualitative criteria. Loan loss reserve requirements have also been strengthened. For instance, performing loans now require 0.5% provisioning, while doubtful loans and substandard loans require up to 50.0% and 25.0% provision, respectively. Loans must be classified as overdue if interest is overdue, even if the principal is up to date. Moreover, new requirements provide for the recognition of restructured loans as non-performing and the establishment of provisioning requirements for excessive related-party loans. It is expected that additional conservative measures will be gradually implemented.

As of March 2021, banking system NPL year-over-year growth was 22.9%, the majority of which was comprised of non-performing retail loan growth. Problem loans, that is the sum of special mention and non-performing loans, increased in all economic sectors in 2020. Despite the growth of NPLs, banking system Tier I and total capital adequacy ratios were robust at 14.4% and 14.5% respectively, which are 5.4 and 2.5 percentage points higher, respectively, than the minimum requirements. However, both NPL and capital adequacy ratios do not fully reflect banking system soundness, as the impact from the forbearance measures by the Bank of Mongolia also need to be assessed. The Bank of Mongolia's decision, effective January 1, 2019, on imposing a limit of 30 months on all non-mortgage retail loans and introducing a DSTI limit, has significantly lowered the banking system's consumer loans, which will consequently decrease NPL retail loan NPLs. The following table sets forth the change in quality of loans outstanding in the banking sector as of the dates indicated:

	As of December 31,					As of March
	2016	2017	2018	2019	2020	31,
	(MNT billions)					2021 <sup>(1)</sup>
Performing.....	10,390.1	11,538.5	14,460.7	15,297.5	13,767.4	14,176.7
Past due .....	899.9	819.5	843.4	815.8	1,264.5	1,277.0
Non-performing <sup>(2)</sup> .....	1,047.5	1,148.5	1,778.3	1,818.9	1,996.1	2,013.4
Total .....	12,337.5	13,506.5	17,082.4	17,932.2	16,950.0	17,467.1
NPL ratio .....	8.5%	8.5%	10.4%	10.1%	11.8%	11.5%

Source: Bank of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) Non-performing refers to loans that are past due in interest and principal payments for a period of more than 90 days.

The following table sets out the total amount of outstanding loans categorized by industry sector as of the dates indicated:

	As of December 31,					As of March
	2016	2017	2018	2019	2020	31,
	(MNT billions)					2021 <sup>(1)</sup>
Agriculture, forestry, fisheries and subsistence.	282.9	310.5	331.4	384.1	298.6	277.7
Mining and quarrying .....	761.7	1,029.9	1,233.1	1,518.1	1,758.8	1,749.2
Construction .....	1,333.8	1,261.3	1,507.4	1,622.5	1,508.5	1,439.2
Manufacturing .....	1,294.3	1,372.6	1,446.3	1,429.6	1,389.3	1,405.7
Wholesale and retail trade ...	1,742.0	1,864.4	2,411.3	2,893.2	2,748.2	2,894.7
Transportation .....	155.9	189.3	340.0	370.6	405.9	464.3
Communication .....	83.7	44.2	66.6	84.9	62.9	62.3

	As of December 31,					As of March
	2016	2017	2018	2019	2020	31, 2021 <sup>(1)</sup>
	(MNT billions)					
Financial and insurance						
service .....	464.9	387.7	467.9	432.9	303.9	300.8
Real estate .....	1,968.6	1,905.0	1,823.6	2,066.5	2,282.6	2,322.7
Others <sup>(2)</sup> .....	4,249.8	5,141.5	7,454.7	7,129.9	6,275.5	6,550.5
Total .....	12,337.5	13,506.5	17,082.4	17,932.2	17,034.2	17,467.1

Source: Bank of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) "Others" represents: (i) electricity, gas, steam and air conditioning supply; (ii) water supply, sewerage, waste management and remediation activities; (iii) accommodations and food services activities; (iv) professional, scientific and technical activities; (v) administrative and support service activities; (vi) public administration and defense, compulsory social security; (vii) education; (viii) human health and social work; (ix) consumer; and (x) other.

On June 12, 2018, the Minister of Finance, the Chairman of the FRC, the Governor of the Bank of Mongolia and the CEO of the Deposit Insurance Corporation of Mongolia ("DICOM") jointly approved the Strategy Document on Lowering Non-Performing Assets ("NPL Strategy"). The NPL Strategy was approved as part of the EFF program and serves as policy guidelines to address the non-performing assets of the banking sector, introduce legal reform in the sector and improve the efficiency of measures taken by banks in respect of non-performing assets.

The action plan of the NPL Strategy expired at the end of 2020. As of the conclusion of the plan, 11 objectives had been implemented across a range of operational issues associated with managing NPLs. New regulations approved by the Governor of the Bank of Mongolia under the plan include the Model Management and System Reporting Procedures for Reducing Non-performing Assets, Risk Management Procedures Related to Lending, Procedures for Asset Classification, Establishment and Disbursement of Assets, and Bank of Mongolia Collateral Loan Procedures.

The main and new regulations approved by the Governor of the Bank of Mongolia under this plan are: "Model Management and System Reporting Procedures for Reducing Non-performing Assets," "Risk Management Procedures Related to Lending," "Procedure for Asset Classification, Establishment and Disbursement of Assets," "Bank of Mongolia Collateral Loan Procedure" and others.

On January 23, 2019, the Model Regulation on Governance and Reporting Activities related to Reducing Non-Performing Assets ("Model NPL Regulation") was approved by the Governor of the Bank of Mongolia. The Model NPL Regulation's objectives are stipulated as determining activities related to reducing the level of non-performing loans and assets, organizing activities of special asset units and defining the rights, obligations, and responsibilities of employees who are in charge of special assets. Mongolian commercial banks, including the Bank of Mongolia, must prepare and approve their respective regulations and activities related to reducing non-performance loans based on the Model NPL Registration. The NPL Strategy also provides for the approval of a regulation on managing non-performing assets which is currently in the drafting stages.

### Banking System Capitalization

In July 2011, the Bank of Mongolia announced its decision requiring all commercial banks in Mongolia to increase their paid-in capital to MNT16.0 billion by May 1, 2013. On April 1, 2015, the Bank of Mongolia further increased the minimum required paid-in capital for commercial banks to MNT50.0 billion due by December 31, 2017. In 2017, the updated and raised its minimum paid-in-capital requirement to MNT100.0 billion, mandating compliance by the end of 2021. These steps were intended not only to improve the safety and soundness of the banking system, but also to encourage the shareholders of existing banks to monitor their investments more closely. To monitor the health and stability of the financial system, the financial stability committee, formed by the Bank of Mongolia, the Ministry of Finance and the FRC, has effectively been working on analyzing the soundness of the overall financial system since 2005.

In June 2017, the Bank of Mongolia approved new regulations on authorizing changes to the share capital of banks.

Despite the COVID-19 pandemic in 2020, bank capital in Mongolia remained robust due to earnings and equity contributions following the Bank of Mongolia's increase of the minimum capital requirement to the current level of MNT50.0 billion (US\$21.3 million). Foreign banks are required to have minimum paid-in capital of MNT65.0 billion (US\$34.5 million) in order to set up their subsidiary in Mongolia. The Bank of Mongolia amended its regulations with respect to the quality and composition of regulatory capital and additional required capital buffers. The regulation also raised the risk weighting of certain U.S. dollar-denominated loans effective January 1, 2015. This amendment increased the risk weighting of certain unhedged U.S. dollar-denominated loans from 100.0% to 150.0%. The Bank of Mongolia amended the regulations to allow banks to use Tugrik excess reserves to fulfill up to 50.0% of the foreign currency reserve requirements.

The following table sets forth the capital of the banking sector as of the dates indicated:

	As of December 31,					As of
	2016	2017	2018	2019	2020	March 31,
	<i>(MNT billions)</i>					2021 <sup>(1)</sup>
Capital.....	3,110.4	3,276.8	3,447.1	3,658.3	3,468.0	3,583.5

Source: Bank of Mongolia.

(1) Provisional figures subject to further adjustments.

## SECURITIES MARKET

### Overview

The Mongolian Stock Exchange (“MSE”) was established in 1991, shortly after Mongolia’s transition to a free market economy, to facilitate privatization of state assets.

The MSE’s main duties include listing of securities, organizing securities trading, enrolling securities firms as members, monitoring its members’ operations, fostering capital market development, introducing new investment products and services, promoting information transparency and improving financial literacy of the public.

The MSE is a 100% state-owned enterprise, and the MOF exercises the ownership rights of the government. As such, management of MSE is appointed by the MOF and reports to the MOF. The MSE is also regulated by the FRC as a market participant with special licenses to organize securities trading granted by the FRC, under the Securities Market Law. As a self-regulatory organization, MSE has the fundamental purpose of protecting its members’ interests, establishing common procedures for professional activities and codes of conduct, increasing the capabilities of its members, developing and ensuring stability within the securities market.

Listings of corporate debt instruments on the MSE is effectively synonymous with approving issuances of the corporate debt instruments and allowing them to trade on an exchange. Listing authority function is held by the FRC.

In relation to the bond market, the MSE facilitates the public issuance and trading of securities, including publicly listed corporate debt securities. In addition, under the previous Regulation on Issuance and Trading of Government Securities (2014), government bonds were issued through exchange and off-exchange, and the exchange issuance was conducted through the MSE between 2015-2017.

With the new Regulation on Primary and Secondary Market Operations of Domestic Government Securities, which was approved on February 20, 2019, the MOF has been designated the issuing venue for public issuance and auction of government bonds. Because the issuance of local currency government bond issuance has been on hold the new 2019 regulations on government bonds have not yet been implemented, it is unclear whether the government will continue to issue government bonds through the MSE.

The following table sets forth the number of companies listed on the MSE and the total market capitalization as of the dates indicated:

	As of December 31,					As of March 31,
	2016	2017	2018	2019	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>
	<i>(MNT billions)</i>					
Number of listed companies .....	302	300	305	306	315	312
Total market capitalization .....	1,474.2	2,436.3	2,508.0	2,690.3	3,000.3	3,695.1

Sources: Bank of Mongolia

(1) Provisional figures subject to further adjustments.

The stock market index in Mongolia is the Mongolian Stock Exchange Index, a share price index composed of the weighted average of market value listed on the MSE.

### Financial Regulatory Commission

The FRC was established in 2006 pursuant to the Law of Mongolia on the Legal Status of the Financial Regulatory Commission. Formerly, the Securities Committee (now dissolved) of Bank of Mongolia was responsible for capital market regulation.

The FRC was established to oversee and regulate the non-banking financial sectors, including securities market, insurance companies, non-banking financial institutions, and savings and credit unions, with its key

goal being to ensure Mongolia's national financial market stability. Its functions include developing and implementing regulations to ensure the stabilization and regulation of the securities markets, supervising compliance with the relevant legislation, granting and monitoring licenses to carry out activities in the securities market and supervising and training market participants. The chairman and the commissioners of the FRC are appointed by Parliament.

According to the Securities Market Law, the FRC is responsible for developing procedures, guidelines, regulations and approval of securities being offered publicly in Mongolian capital market. Securities offered privately (referred to as closed) are not regulated by the FRC and closed corporate debt instruments (privately placed corporate debt instruments) are not regulated under the current regulations.

Under the Securities Market Law, the FRC is tasked with regulating the following financial services:

- non-banking financial institutions activities;
- activities of professional service providers in the securities market (including listing authority function for exchanges);
- insurance activities;
- insurance brokerage and assessment activities;
- credit union savings and lending activities;
- asset-backed security issuance activities;
- activities stipulated in Loan Guarantee Fund Law;
- insurance activities stipulated in Index-Based Livestock Insurance Law;
- commodities exchange activities;
- real estate brokerage activities; and
- other financial activities as defined in the law.

On March 3, 2021, the FRC released draft regulations for a “regulatory sandbox” arrangement to provide a less robust legislative environment for tech start-up companies. The key feature of this arrangement is the removal of certain requirements for companies to obtain licenses. The regulatory sandbox arrangement is intended to run for a period of one year, and may be extended upon joint approval by the Ministry of Finance, the FRC and the Bank of Mongolia.

## **Money Market**

The Bank of Mongolia has three main monetary policy tools: the auctioning of the four-week and 28-week central bank bills, repo financing, and the reserve requirements. The Bank of Mongolia stopped auctioning the one-week bill in March 2018, and the four-week central bank bill became the main liquidity management instrument. The four-week bill is auctioned every Monday, whereas the 28-week bill is auctioned every two weeks on Wednesdays.

### ***Open Market Operations***

Open market operations or central bank bill sales are a monetary policy implementation tool. In order to manage fluctuations in the interbank short term rate and reserves, the Bank of Mongolia trades with banks the following central bank securities with different yields and maturities:

- sell central bank bills with maturities of between one week and 12 weeks to recall reserves from the interbank market; and
- repo sale central bank bills in transactions with a maturity of up to one week to supply reserves into the interbank market.

Trade of the securities can take one of five forms:

- trade with a stable yield, unlimited bidding;
- trade with a stable yield, limited bidding;
- trade with competition by rate within a certain interval;
- yield with an upper limit, unlimited bidding; and
- trade with competition by rate, limited bidding.

### *Interbank Money Market*

The Bank of Mongolia organizes and governs the interbank money market as part of its open market operations. The interbank money market started trading in 1993, with the Bank of Mongolia issuing the first central bank bills.

Market participants in the interbank money market are currently limited to the Bank of Mongolia, commercial banks, DBM, and the DICOM.

The key money market instruments traded on the interbank market are government and central bank securities repurchase agreements (repos), central bank bills, overnight lending and interbank deposits. Trades take place on the Bank of Mongolia's interbank electronic trading system.

### **Capital Markets**

The main regulatory body for Mongolia's capital market is the FRC. According to Securities Market Law, the FRC is responsible for developing procedures, guidelines, regulations and approval of securities being offered publicly in the Mongolian capital markets.

In addition to the FRC, the MOF plays a key role in legislation, regulation, and the development of the financial and capital markets, and the securities market at large. Government policies and legislations related to the capital markets are generally handled by the MOF, and government ownership of key governmental agencies involved in the capital market is exercised through the MOF. In addition, the MOF is both an issuer and regulator of the local currency government bond market.

Prior to temporary cease of government bond issuance in 2017, the MOF issued government bonds as per the Regulation on Issuance and Trading of Government Securities (approved November 26, 2014, repealed and replaced on February 20, 2019) approved under the Joint Decree of Minister of Finance and Governor of Bank of Mongolia. Under this previous regulation, government bonds were issued through exchange and off-exchange methods, and the off-exchange issuance was conducted through the Bank of Mongolia's interbank OTC market, while the exchange issuance was conducted through the MSE.

The MSE, the Mongolian Central Securities Depository ("MCSD"), and the Mongolian Securities Clearing House ("MSCH") are fully government-owned entities, and the ownership is exercised by the MOF, although these entities are regulated by the FRC in accordance with the Securities Market Law. The MSE, however, is a privately held exchange regulated by the FRC.

### ***Mongolian Central Securities Depository***

Pursuant to Government Resolution No.72 in 2003, Mongolian Securities Clearing House and Central Depository LLC was established under the MOF, to conduct registration of securities ownership rights, securities central depository and securities clearing and settlement. However, in April 2016, the Securities Clearing and Settlement Department was separated as an independent company, Mongolian Securities Clearing House LLC, and registration of ownership rights and central depository department was reorganized as Mongolian Central Securities Depository LLC, both of which are owned 100% by the government. The most recent change was the adoption of delivery-versus-payment/T+2 settlement date. This development in the capital market made MCSD as the payment processing organization, as previously Mongolian Securities Clearing House oversaw it.

The MCSD is 100% state-owned and as such, management of MCSD is appointed by the MOF and reports to the MOF. The MCSD is regulated by the FRC as a market participant with special licenses, under the Securities Market Law.

In the context of bond market, the MCSD conducts registration and depository services for local currency government bonds, as per both previous and new government regulations on government bond issuance, as well as publicly offered corporate debt securities, as per the Securities Market Law. In the case of government bonds, both exchange issuances and off-exchange issuances were registered and deposited at the MCSD.

### ***Mongolian Securities Clearing House***

The MSCH was established as an independent clearing and settlement institution in 2016 as per Government Resolution No.147 on the Reorganization of the Central Securities Depository and Clearing & Settlement Company in 2015. Prior to that, it was part of the Mongolian Securities Clearing House and Central Depository LLC, established under the MOF.

The MSCH is 100% state-owned and as such, management of the MSCH is appointed by the MOF and reports to the MOF. The MSCH is regulated by the FRC as a market participant with special licenses by the FRC, under the Securities Market Law.

### ***Primary Bond Market***

Government bonds are regulated under the Debt Management Law (enacted February 18, 2015). The MOF is responsible for formulating regulations on primary and secondary market of government securities.

Exchange issuance of government bonds were regulated by the 2014 Government Regulation and the bonds were issued through the MSE, as per the MSE Guidance on Primary Market Issuance of Government Securities.

Off-exchange issuances of government bonds were organized through the Bank of Mongolia operated interbank OTC market.

As part of the IMF's three-year extended arrangement under the EFF program for Mongolia entered into in May 2017, Mongolia's local currency government bond issuance was temporarily halted by the MOF in October 2017. A new government bond regulation was approved in 2019, after this halt in local currency government, but it is yet to be implemented.

## DESCRIPTION OF THE BONDS

*This is only a summary of the material provisions of the Bonds and the Indenture and it does not contain all of the information that may be important to you as a potential investor in the Bonds. The Issuer urges you to read the Indenture for a complete description of its obligations and your rights as a holder of the Bonds. The Bonds and any securities that may be issued under the Indenture are referred to herein as “debt securities”.*

### **General**

The Bonds will constitute direct, unconditional, unsubordinated and unsecured general obligations of the Issuer and will at all times rank *pari passu* among themselves in all respects, without any preference of one over the other by reason of priority of date of issue or otherwise, and will at all times rank at least equally with all other present and future unsecured and unsubordinated External Indebtedness (as defined below). The full faith and credit of Mongolia will be pledged for the due and punctual payment of the principal of, and interest on, the Bonds, provided, however, that the Issuer shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Bonds and vice versa.

### **Principal, Interest and Maturity**

#### ***Bonds***

The 2027 Bonds will be issued in an aggregate principal amount of US\$500,000,000 and will mature on July 7, 2027 (the “2027 Maturity Date”). Interest on the 2027 Bonds will be payable semi-annually in arrears on January 7 and July 7 of each year, commencing on January 7, 2022 (each, a “2027 Interest Payment Date”) to persons in whose names the 2027 Bonds are registered at the close of business on the fifteenth calendar day preceding each 2027 Interest Payment Date. The 2027 Bonds will bear interest at the rate of 3.500% per annum from and including July 7, 2021 or from the most recent 2027 Interest Payment Date to which interest has been paid or provided to, and to and excluding, the 2027 Maturity Date.

The 2031 Bonds will be issued in an aggregate principal amount of US\$500,000,000 and will mature on July 7, 2031 (the “2031 Maturity Date”). Interest on the 2031 Bonds will be payable semi-annually in arrears on January 7 and July 7 of each year, commencing on January 7, 2022 (each, a “2031 Interest Payment Date”) to persons in whose names the 2031 Bonds are registered at the close of business on the fifteenth calendar day preceding each 2031 Interest Payment Date. The 2031 Bonds will bear interest at the rate of 4.450% per annum from and including July 7, 2021 or from the most recent 2031 Interest Payment Date to which interest has been paid or provided to, and to and excluding, the 2031 Maturity Date.

Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Unless previously purchased or cancelled as described herein, the Bonds shall mature on the applicable Maturity Date, and on the applicable Maturity Date, the holders of the Bonds shall be entitled to a payment equal to the principal amount of the Bonds outstanding on the applicable Maturity Date plus accrued and unpaid interest.

Any payment of principal or interest otherwise required to be made in respect of a Bond on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue for the period from and after such date as a result of such delayed payment. “Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London, New York, Ulaanbaatar or Singapore are authorized or obligated by law or executive order to close.

If the money that the Issuer pays to the Trustee or to any paying agent to make payments on any debt securities is not claimed at the end of one year after the applicable payment was due and payable, then the

money will be repaid to the Issuer on the Issuer's written request. The Issuer will hold such unclaimed money in trust for the relevant holders of those debt securities. After any such repayment, neither the Trustee nor any paying agent will be liable for the payment.

Persons in whose name a registered Bond is held are herein referred to as "Bondholders".

The Bonds will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

### **Additional Amounts**

The Issuer will make all payments on the Bond without withholding or deducting any present or future Taxes, imposed or levied by or on behalf of any Tax Jurisdiction, unless such deduction or withholding is required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the Bondholders such additional amounts ("Additional Amounts") as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

The Issuer will not pay, however, any Additional Amounts if the Bondholder or beneficial owner of the Bond is liable for Taxes imposed by any Tax Jurisdiction because of or in relation to:

- the Bondholder or beneficial owner being connected with any Tax Jurisdiction other than by merely owning the Bond or receiving income or payments on the Bond; or
- upon reasonable request by the Issuer or its agent, the Bondholder or beneficial owner having failed to comply in a timely manner with any certification, identification or other reporting requirement concerning the Bondholder's or beneficial owner's nationality, residence, identity or connection with any Tax Jurisdiction, if (a) compliance with such requirement is required by any statute or regulation of any Tax Jurisdiction as a precondition to exemption from withholding or deduction of Taxes and (b) the Issuer has given the Bondholders at least 30 days' notice that Bondholders will be required to provide such certification, identification or other requirement; or
- the Bondholder failed to present its Bond for payment (where presentation is required) within 30 days of when the payment is due or when the Issuer makes available to the Bondholder or the Trustee a payment of principal or interest, whichever is later. Nevertheless, the Issuer will pay Additional Amounts to the extent the Bondholder would have been entitled to such amounts had it presented its Bond for payment on the last day of the 30 day period;
- any Tax imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended as of the issue date (or any amended or successor version that is substantively comparable) (the "Code") and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any law, regulation, rule or practice adopted pursuant to any such intergovernmental agreement or pursuant to any treaty or convention implementing such sections of the Code; or
- any combination of the above.

In addition, the obligation to pay such Additional Amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar Tax or (b) any Tax which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Bond; provided that, except as otherwise set forth in the Bond and in the Indenture, the Issuer shall pay all stamp and other duties, if any, which may be imposed by any Tax Jurisdiction, with respect to the Indenture or as a consequence of the initial issuance of the Bond.

Any reference in the Bond to principal or interest shall be deemed also to refer to any Additional Amounts which may be payable with respect thereto as described above.

“Tax” means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

“Tax Jurisdiction” means Mongolia or any political subdivision or any authority thereof or therein having power to tax.

### **Negative Pledge**

So long as any Bonds remain outstanding, the Issuer shall not create, incur, assume or permit to subsist any Lien upon the whole or any part of its present or future assets or revenues to secure (1) any Public External Indebtedness (as defined below) of the Issuer; (2) any Guarantees in respect of Public External Indebtedness; or (3) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the outstanding Bonds equally and ratably therewith or providing such other arrangement (whether or not comprising a Lien) as shall be approved by at least 75.0% of the aggregate principal amount of the outstanding Bonds which are represented at a meeting of Bondholders duly convened in accordance with the Indenture or a resolution in writing signed or confirmed in writing on behalf of the holders of at least 75.0% of the aggregate principal amount of the outstanding Bonds.

### ***Certain Definitions***

“External Indebtedness” means any Indebtedness which is denominated or payable by its terms in, or at the option of the holder thereof or relevant creditor payable in, any currency other than Tugriks.

“Guarantee” means any obligation of a person to pay the Indebtedness of another person including (without limitation):

- an obligation to pay or purchase such Indebtedness;
- an obligation to lend money, to purchase or subscribe for shares or other securities or to purchase assets or services, in order to provide funds for the payment of such Indebtedness;
- any indemnity against the consequences of a default in the payment of such Indebtedness; or
- any other agreement to be responsible for such Indebtedness.

“Indebtedness” means (i) any obligation (whether present or future and whether being principal, premium, interest or other amounts) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing) and (ii) any guarantee or indemnity of any such obligation.

“Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind, whether in effect on the date the Indenture becomes effective or at any time thereafter.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

“Public External Indebtedness” means any Indebtedness which (i) is payable, or at the option of the relevant creditor may be payable, in any currency other than Tugriks, and (ii) is in the form of, or is represented by, bonds or other securities or any guarantees thereof with a stated maturity of more than one year from the date of issue which may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market.

### ***Exceptions***

The following exceptions apply to the Issuer’s obligations under “— Negative Pledge”:

- any Lien securing future Public External Indebtedness of the Issuer or any Guarantee by the Issuer in respect of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction, improvement, development or redevelopment of a property, project or asset; *provided that* (i) the holders or beneficiaries of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such property, project or asset or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (ii) the property over which such Lien is granted consists solely of such assets and revenues;
- any Lien existing on any property, project or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of such Lien limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;
- any Lien arising by operation of law, *provided that* any such Lien is not created or permitted to be created by the Issuer to secure any Public External Indebtedness; and
- any Lien arising in the ordinary course of the Issuer’s business activities in connection with borrowing activities which secures Public External Indebtedness maturing (after taking into account any extension, renewal or replacement of such Public External Indebtedness) not more than one year after the date on which it was originally incurred.

*The foreign exchange reserves of the Bank of Mongolia represent substantially all of the official total foreign exchange reserves of the Issuer. Because the Bank of Mongolia is a separate entity, the Issuer is of the view that the foreign exchange reserves owned by the Bank of Mongolia are not subject to the negative pledge covenant of the Bonds and that the Bank of Mongolia could in the future incur Public External Indebtedness secured by such foreign exchange reserves without securing amounts payable under the Bonds.*

## **Events of Default**

The occurrence and continuance of any of the following will constitute events of default (“Events of Default”) with respect to the Bonds of such series:

### **(1) *Non-payment***

The Issuer fails to pay any interest or principal on any of the Bonds of such series when due and payable and such failure continues for a period of 15 calendar days (in the case of principal) or 30 calendar days (in the case of interest), or

### **(2) *Breach of other obligations***

The Issuer fails to duly observe or perform any of the other covenants or agreements contained in the Bonds of such series or in the Indenture for a period of 60 calendar days after the date on which written notice specifying such failure and demanding that the Issuer remedy the same shall have been given to the Issuer by the Bondholders of such series of at least 10.0% of the aggregate principal amount of the outstanding Bonds of such series, or

### **(3) *Cross-Default***

- (a) any present or future External Indebtedness shall become due and payable prior to its stated maturity (otherwise than at the option of the Issuer or pursuant to an option exercisable by a creditor in the absence of a default by the Issuer); or
- (b) any default shall occur in the payment of principal of, or premium or prepayment charge (if any) or interest on, any future External Indebtedness when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, originally applicable thereto; or

- (c) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or
- (d) any default shall occur in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person, *provided that* the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (3) have occurred equals or exceeds US\$50.0 million (or its equivalent in any other currency or currencies), or

**(4) *Moratorium***

A general moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer, or

**(5) *International Monetary Fund (“IMF”) Membership***

The Issuer shall cease to be a member of the IMF or shall cease to be eligible to use the general resources of the IMF, or

**(6) *Validity***

The validity of the Bonds of such series shall be contested by the Issuer or any legislative or executive body or official of Mongolia which is authorized in each case by law to do so and, acting alone or together with another such body or official, has the legal power and authority to declare the Bonds of such series invalid or unenforceable, or the Issuer shall deny any of its obligations under the Bonds of such series (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), or any constitutional provision, treaty, convention, law, regulation, official communique, decree, ordinance or policy of Mongolia or any final and non-appealable decision by any court in Mongolia having jurisdiction, shall purport to render any provision of the Bonds of such series invalid or unenforceable or shall purport to prevent or delay the performance or observance by the Issuer of any of its obligations thereunder, or

**(7) *Revocation of Authority***

Any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other authority necessary to enable the Issuer to make or perform its obligations under the Bonds of such series or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect or remain valid and subsisting, or shall be modified in a manner which adversely affects or will adversely affect any rights or claims of any of the Bondholders of such series, or

**(8) *International Monetary Assets***

The Issuer or the Bank of Mongolia shall not at any time exercise full ownership, power and control over any of their International Monetary Assets as they exist from time to time (unless, prior to the occurrence of such an event, a public sector entity has substantially all powers and assets of the Bank of Mongolia (including, without limitation, all of its International Monetary Assets) and performs the functions of a central bank and shall assume and acquire such assets, powers and functions). “International Monetary Assets” means all (a) gold, (b) Special Drawing Rights, (c) Reserve Positions in the Fund and (d) Foreign Exchange, and the terms “Special Drawing Rights”, “Reserve Positions in the Fund” and “Foreign Exchange” have, as to the type of assets included, the meaning given to them in the IMF publication entitled “International Financial Statistics” or such other meanings as shall be formally adopted by the IMF from time to time.

If any of the above Events of Default occurs and is continuing, then the Bondholders of not less than 25.0% in aggregate principal amount of the Bonds of such series then outstanding, by notice in writing to the Issuer at the specified office of the Paying Agent, may declare the principal amount of all such Bonds of such series

to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further formality, unless such Event of Default shall have been remedied prior to the receipt of such written notice by the Paying Agent.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Bondholders of such series, the Bondholders of at least 50.0% in aggregate principal amount of the outstanding Bonds of such series, by written notice to the Issuer, may rescind and annul such declaration and its consequences in accordance with the terms and conditions of the Indenture.

### **Purchases of Bonds by the Issuer**

The Issuer may at any time purchase or acquire any of the Bonds in any manner and at any price in the open market. The Bonds which are purchased or acquired by the Issuer may, at the Issuer's discretion, be held, resold or surrendered to the Registrar for cancellation.

### **Enforcement**

Except as provided in Section 4.7 of the Indenture, no holder of any Bonds shall have any right by virtue of or by availing itself of any provision of the Indenture or the Bonds to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the Bonds, or for any other remedy hereunder or under the Bonds, unless (a) such holder previously shall have given to the Trustee written notice of default and of the continuance thereof with respect to the Bonds of such series, (b) the holders of not less than 25% in aggregate principal amount outstanding of the Bonds of such series shall have made written request to the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have provided to the Trustee such indemnity and/or other security to its satisfaction as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and (c) the Trustee for 60 days after its receipt of such notice, request and provision of indemnity and/or other security shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to Section 4.9 of the Indenture, it being understood and intended, and being expressly covenanted by every holder of Bonds with every other holder of Bonds and the Trustee, that no one or more holder shall have any right in any manner whatsoever by virtue or by availing itself of any provision of the Indenture or of the Bonds to affect, disturb or prejudice the rights of any other holder of Bonds or to obtain priority over or preference to any other such holder, or to enforce any right under the Indenture or under the Bonds, except in the manner herein provided and for the equal, ratable and common benefit of all holders. For the protection and enforcement of this "Enforcement" section, each and every holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

### **Meeting, Amendments and Waivers — Collective Action**

The Issuer may call a meeting of holders of debt securities of any series issued under the Indenture at any time. The Issuer will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, the Issuer (or, if directed by the Issuer, the Trustee) will call a meeting of holders of debt securities of any series (including the Bonds) if the holders of at least 10% in aggregate principal amount of all debt securities of such series then outstanding have delivered a written request to the Issuer or the Trustee (with a copy to the Issuer) setting out the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, the Issuer will notify the Trustee and the Trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notification is given.

Only holders of debt securities of the relevant series and their proxies are entitled to vote at a meeting. The Issuer will set the procedures governing the conduct of the meeting and if additional procedures are required, the Issuer, in consultation with the Trustee, will establish such procedures as are customary in the market.

Modifications may also be approved by holders of debt securities issued under the Indenture (including the Bonds) pursuant to written action with the consent of the requisite percentage of debt securities of the relevant series. The Issuer will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by the Issuer.

The holders of a series of debt securities issued under the Indenture (including the Bonds) may generally approve any proposal by the Issuer to modify or take action with respect to any Non-Reserved Matter (as defined below) relating to the Indenture or the terms of the debt securities of that series with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the debt securities of that series.

Holders of any series of debt securities issued under the Indenture (including the Bonds) may approve, by vote or consent through one of three modification methods described below, any modification, amendment, supplement or waiver proposed by the Issuer that would do any of the following (such subjects referred to as “Reserve Matters” in the Indenture, as it relates to the series of debt securities issued under the Indenture (including the Bonds) with respect to such series of debt securities:

- change the date on which any amount is payable;
- reduce the principal amount (other than in accordance with the express terms of the debt securities of that series and the Indenture);
- reduce the interest rate;
- change the method used to calculate any amount payable (other than in accordance with the express terms of the debt securities of that series and the Indenture);
- change the currency or place of payment of any amount payable;
- modify the Issuer’s obligation to make any payments (including any redemption price therefor);
- change the identity of the obligor;
- change the definition of “Outstanding debt securities” or the percentage of affirmative votes or written consents, as the case may be, required to make a “Reserve Matter Modification”;
- change the definition of “Uniformly Applicable” or “Reserve Matter Modification”;
- authorize the Trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of the Issuer or any other person;
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of such debt securities;
- increase the percentage of the aggregate principal amount then outstanding required to be held by holders to declare the debt securities of such series due and payable immediately, or reduce the percentage of the aggregate principal amount then outstanding required to be held by holders to waive any existing defaults or rescind or annul any notice of acceleration and its consequences;
- amend the provisions of the Indenture that govern the re-designation of series of debt securities in the context of a Reserve Matter Modification;
- amend the provisions of the Indenture, including the definition of “Restructuring Exchange Offer,” that govern the restrictions on the Issuer’s ability to conduct a Reserve Matter Modification with

Single Aggregated Voting following a Reserve Matter Modification with Two-tier Voting or a Restructuring Exchange Offer; or

- amend the rights upon future offers provision included in the Indenture.

A change to a Reserve Matter, including the payment terms of the debt securities of any series issued under the Indenture (including the Bonds), can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- in the case of a proposed modification to a single series of debt securities, the holders of more than 75% of the aggregate principal amount of the Outstanding debt securities of that series;
- where such proposed modification would affect the Outstanding debt securities of any two or more series, the holders of more than 75% of the aggregate principal amount of the Outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, if certain “Uniformly Applicable” (as defined below) requirements are met (a “Cross-series Modification with a Single Aggregated Voting”); or
- where such proposed modification would affect the Outstanding debt securities of any two or more series, whether or not the “Uniformly Applicable” requirements are met, the holders of more than  $66\frac{2}{3}\%$  of the aggregate principal amount of the Outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and the holders of more than 50% of the aggregate principal amount of the Outstanding debt securities of each series affected by the modification, taken individually (a “Cross-series Modification with Two-tier Voting”).

Any modification consented to or approved by holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent or approval, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security.

For so long as any series of debt securities issued under any of the Existing Fiscal Agency Agreements (as defined below) are outstanding, if the Issuer certifies to the Trustee and to the fiscal agent under the applicable Existing Fiscal Agency Agreement that a cross-series modification is being sought simultaneously with an “Existing Bonds Reserve Matter Modification” (as defined below), the Existing Bonds affected by such Existing Bonds Reserve Matter Modification shall be treated as “Series affected by that Proposed Modification” as that phrase is used in the Indenture with respect to both cross-series Modifications with Single Aggregated Voting and Cross-series Modifications with Two-tier Voting; provided, that if the Issuer seeks a Cross-series Modification with Single Aggregated Voting, in determining whether such Modification will be considered Uniformly Applicable, the holders of any series of Existing Bonds affected by the Existing Bonds Reserve Matter Modification shall be deemed “holders of debt securities of all series affected by that modification,” for the purpose of the Uniformly Applicable definition. It is the intention that in the circumstances described in respect of any cross-series modification, the votes of the holders of the affected Existing Bonds be counted for purposes of the voting thresholds specified in the Indenture for the applicable cross-series modification as though those Existing Bonds had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the affected Existing Bonds, shall be governed exclusively by the terms and conditions of those Existing Bonds and by the applicable Existing Fiscal Agency Agreement; provided, however, that no such modification as to the affected debt securities will be effective unless such modification shall have also been adopted or deemed adopted by the holders of the affected Existing Bonds pursuant to the amendment and modification provisions of such Existing Bonds.

At the time the Issuer proposes a modification constituting a Reserve Matter, the Issuer shall specify to holders of each series of debt securities to be affected the modification method(s) it has selected for such modification. The Issuer shall have the discretion to select the modification method(s) for a proposed reserve

Matter Modification and to designate which series of debt securities will be included in the aggregated voting for a proposed modification constituting a Reserve Matter to the terms and conditions of the debt securities of two or more series (the “Initially Designated Series”); *provided, however* that, except as set forth in the following sentence, once the Issuer selects the modification method(s) and the Initially Designated Series, such selection may not be changed, modified or supplemented without providing written notice of such change, modification or supplement to holders of debt securities to be affected (specifying which series, if any, have been excluded from the list of Initially Designated Series) and granting such holders no less than five Business Days from the date of such notice to cast, revoke or change any vote or consent delivered in connection with such proposed modification. Notwithstanding the foregoing, at any time prior to the effectiveness of the modification constituting a reserve matter and without prior notice to holders of any debt securities of the Initially Designated Series, the Issuer shall have discretion to re-designate which series of debt securities will be included in the aggregated voting for a proposed modification constituting a Reserve Matter to the terms and conditions of the debt securities of two or more series if at the time of such re-designation the Issuer has received the affirmative vote or consent of holders of more than 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the Outstanding debt securities of all the Initially Designated Series.

If the Issuer (A) selects a Cross-series Modification with Two-tier Voting as the modification method for a modification constituting a Reserve Matter to the terms and conditions of the debt securities of two or more series or (B) launches a “Restructuring Exchange Offer” (as defined below), in each case of (A) and/or (B), the Issuer will not, for a period of thirty-six (36) months following the effectiveness of such modification or the settlement of such Restructuring Exchange Offer, select a Cross-series Modification with Single Aggregated Voting as the modification method for a proposed Reserve Matter affecting (i) any of the debt securities of the Initially Designated Series that were not successfully modified pursuant to such cross-series modification or any series of debt securities invited to be exchanged pursuant to the Restructuring Exchange Offer and (ii) any series of debt securities successfully modified, exchanged or substituted for pursuant to such modification or any series of debt securities into which debt securities were exchanged pursuant to such Restructuring Exchange Offer (or any series of debt securities into which any of the foregoing is subsequently modified, exchanged or substituted), unless such prior modification or Restructuring Exchange Offer received the affirmative vote or consent or participation, as the case may be, of holders of more than 75% of the aggregate principal amount of the Outstanding debt securities of all the Initially Designated Series to be included in that modification or invited in such Restructuring Exchange Offer. The foregoing limitation shall not be modified pursuant to a Cross-series Modification with Single Aggregated Voting.

“Restructuring Exchange Offer” means an offer inviting holders of more than one series of debt securities to exchange such debt securities for new debt securities (other than an invitation to exchange where (i) the debt securities to be exchanged are trading above 90% of their par value (or accreted value in the case of debt securities initially issued at a discount) on an internationally recognized financial information platform (such as Bloomberg) at 4:00 p.m., New York City time, as reported on the Business Day immediately prior to the date on which the offer is launched, and (ii) the sum of the net present values of the new debt securities and any other consideration delivered in the exchange is not less than 90% of the sum of the net present values of the debt securities and any other consideration to be exchanged, in each case, discounted at the same rate of return).

“Existing Bonds” means any of the 2021 Bonds, 2022 Bonds, 2023 Bonds or 2024 Bonds, as applicable;

“Existing Bonds Reserve Matter Modification” means any modification to a Reserved Matter affecting the terms and conditions of one or more series of debt securities issued under any of the Existing Fiscal Agency Agreements, pursuant to the terms of the applicable Existing Fiscal Agency Agreement.

“Existing Fiscal Agency Agreement” means any of the 2021 Fiscal Agency Agreement, 2022 Fiscal Agency Agreement, 2023 Fiscal Agency Agreement or 2024 Fiscal Agency Agreement, as applicable;

“Existing Fiscal Agency Agreement Reserve Matter Modification” means any modification to the terms and conditions of one or more series of the Existing Bonds, pursuant to Clause 30 of the 2021 Fiscal Agency Agreement, Clause 30 of the 2022 Fiscal Agency Agreement, Clause 20 of the 2023 Fiscal Agency Agreement or Clause 20 of the 2024 Fiscal Agency Agreement, as applicable;

“2021 Bonds” means Bonds authenticated and delivered under the 2021 Fiscal Agency Agreement;

“2022 Bonds” means Bonds authenticated and delivered under the 2022 Fiscal Agency Agreement;

“2023 Bonds” means Bonds authenticated and delivered under the 2023 Fiscal Agency Agreement;

“2024 Bonds” means Bonds authenticated and delivered under the 2024 Fiscal Agency Agreement;

“2021 Fiscal Agency Agreement” means the amended and restated agency agreement dated as of June 19, 2015 among the Issuer and Deutsche Bank AG, Hong Kong Branch as principal paying agent, transfer agent and exchange agent, Deutsche Bank Trust Company Americas, as principal registrar, transfer agent and U.S. paying agent, and Deutsche Bank Luxembourg S.A. as registrar;

“2022 Fiscal Agency Agreement” means the agency agreement dated as of November 21, 2012 among the Issuer and Deutsche Bank AG, Hong Kong Branch as principal paying agent, transfer agent and exchange agent, Deutsche Bank Trust Company Americas as principal registrar, transfer agent and U.S. paying agent, and Deutsche Bank Luxembourg S.A., as registrar;

“2023 Fiscal Agency Agreement” means the fiscal agency agreement dated as of November 1, 2017 between the Issuer and Deutsche Bank Trust Company Americas, as fiscal agent; and “2024 Fiscal Agency Agreement” means the fiscal agency agreement dated as of March 9, 2017 between the Issuer and Deutsche Bank Trust Company Americas, as fiscal agent.

“Non-reserved Matter Modification,” as referred to above, means a modification other than a modification constituting a Reserved Matter.

“Uniformly Applicable,” as referred to above, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be Uniformly Applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

Before soliciting any consent or vote of any holder of debt securities issued under the Indenture for any change to a Reserve Matter, the Issuer will provide the following information to the Trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

- a description of the Issuer’s economic and financial circumstances that are in the Issuer’s opinion, relevant to the request for the proposed modification, a description of the Issuer’s existing debts and description of its broad policy reform program and provisional macroeconomic outlook;
- if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of the Issuer’s proposed treatment of foreign debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and
- if the Issuer is then seeking any Reserve Matter Modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of any series of debt securities has approved any amendment, modification or change to, or waiver of, debt securities or the Indenture, or whether the required percentage of holders of debt securities of any series has delivered a notice of acceleration of such debt securities, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by the Issuer or by a Public Sector Instrumentality, or by a corporation, trust or other legal entity that is controlled by the Issuer or a Public Sector Instrumentality, except that (x) debt securities held by the Issuer or any Public Sector Instrumentality of the Issuer or by a corporation, trust or other legal entity that is controlled by the Issuer or a Public Sector Instrumentality that have been pledged in good faith may be regarded as outstanding if the pledgee establishes the pledgee’s right so to act with respect to such debt securities and that the pledgee is not the Issuer, a Public Sector Instrumentality or a corporation, trust or other legal entity that is controlled by the Issuer or a Public Sector Instrumentality, and in case of a dispute concerning such right, an officer’s certificate and an opinion of counsel shall be full protection in respect of any action or inaction by the Trustee in accordance with such officer’s certificate and opinion of counsel and (y) in determining whether the Trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the Trustee has received an officer’s certificate will be so disregarded.

As used in the preceding paragraph, “Public Sector Instrumentality” means any department, ministry or agency of the central Issuer, or a corporation, trust or other legal entity that is controlled by the central Issuer or by a Public Sector Instrumentality if the Issuer or any of the foregoing has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or to elect or to appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

### **Other Amendments**

The Issuer and the Trustee may, without the vote or consent of any holder of the Bonds, amend the Indenture or such Bonds for the purposes of:

- adding covenants by the Issuer for the benefit of the holders;
- surrendering any of the Issuer’s right or powers with respect to the Bonds of that series;
- securing the Bonds of that series;
- curing any ambiguity or curing, correcting or supplementing any provision which may be defective or inconsistent with any other provision.

### **Further Issues**

The Issuer may from time to time, without the consent of holders of the Bonds, create and issue additional debt securities having the same terms as a series of the Bonds in all respects, except for issue date, issue price, original interest accrual date and the first interest payment on the Bonds of such series; *provided, however*, that any additional debt securities subsequently issued shall be issued, for U.S. federal income tax purposes, either (a) as part of the “same issue” as the Bonds, or (b) in a “qualified reopening” of the Bonds of such series, unless such additional debt securities have a separate CUSIP, ISIN or other identifying number from the previously outstanding Bonds of such series. Such additional debt securities will be consolidated with and will form a single series with the previously outstanding Bonds of such series.

## Global Bonds

*DTC, Euroclear, and Clearstream, are under no obligation to perform or continue to perform the procedures described below, and they may modify or discontinue them at any time. Neither the Issuer nor the Trustee nor any Agent will be responsible for DTC's, Euroclear's or Clearstream's performance of their obligations under their rules and procedures. Additionally, neither the Issuer nor the Trustee nor any Agent will be responsible for the performance by direct or indirect participants of their obligations under their rules and procedures.*

The Bonds will initially be issued to investors in global form, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of Bonds. The Issuer refers to the intangible Bonds represented by a global Bond as “book-entry” Bonds.

The Issuer will deposit any global Bond it issues with a clearing system or its nominee. The global Bond will be registered in the name of the clearing system or its nominee or common depositaries. Unless a global Bond is exchanged for certificated securities, as discussed under “Description of the Bonds — Certificated Securities”, it may not be transferred, except as a whole among the clearing system, its nominees or common depositaries and their successors. Clearing systems include DTC in the United States and Euroclear and Clearstream in Europe. For the avoidance of doubt, the Bonds will be registered in the name of a nominee of DTC.

Clearing systems process the clearance and settlement of book-entry Bonds for their direct participants. A “direct participant” is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An “indirect participant” is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant. Euroclear and Clearstream are connected to each other by a direct link and participate in DTC through their New York depositaries, which act as links between the clearing systems. These arrangements permit you to hold book-entry Bonds through participants in any of these systems, subject to applicable securities laws.

If you wish to purchase book-entry Bonds, you must either be a direct participant or make your purchase through a direct or indirect participant. Investors who purchase book-entry Bonds will hold them in an account at the bank or financial institution acting as their direct or indirect participant.

When you hold Bonds in this manner, you must rely on the procedures of the institutions through which you hold your Bonds to exercise any of the rights granted to holders. This is because the legal obligations of the Issuer run only to the registered owner of the global Bond, which will be the relevant clearing system or its nominee or common depositary. For example, once the Issuer arranges for payments to be made to the registered holder, the Issuer will no longer be liable for the amounts so paid on the security, even if you do not receive it. In practice, the clearing systems will pass along any payments or notices they receive from the Issuer to their participants, which will pass along the payments to you. In addition, if you desire to take any action which a holder of a Bond is entitled to take, then the clearing system would authorize the participant through which you hold your book-entry Bonds to take such action, and the participant would then either authorize you to take the action or would act for you on your instructions. The transactions between you, the participants and the clearing systems will be governed by customer agreements, customary practices and applicable laws and regulations, and not by any legal obligation of the Issuer.

As an owner of book-entry Bonds represented by a global Bond, you will also be subject to the following restrictions, among others:

- you will not be entitled to (a) receive physical delivery of the Bonds in certificated form or (b) have any of the Bonds registered in your name, except under the circumstances described under “Description of the Securities — Certificated Securities”;
- you may not be able to transfer or sell your Bonds to some insurance companies and other institutions that are required by law to own their Bonds in certificated form;

- you may not be able to pledge your Bonds in circumstances where certificates must be physically delivered to the creditor or the beneficiary of the pledge in order for the pledge to be effective; and
- none of the Issuer, the Trustee, any paying agent, any registrar or any agent of the Issuer or the Trustee shall have any responsibility or obligation to any beneficial owner in a global security, or participant or other person with respect to the accuracy of the records of the relevant clearing system or its nominee or common depositary, with respect to any ownership interest in the securities or with respect to the delivery to any participant, beneficial owner or other person of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such securities. All notices and communications to be given to the holders and all payments to be made to holders under the securities and the Indenture will be given or made only to or upon the order of the registered holders (which shall be the relevant clearing system or its nominee or common depositary in the case of the global security). The rights of beneficial owners in the global security shall be exercised only through the relevant clearing system or its nominee or common depositary subject to the applicable procedures. The Issuer, the Trustee, any paying agent, any registrar and any agent of the Issuer or the Trustee shall be entitled to rely and shall be fully protected in relying upon information furnished by the relevant clearing system or its nominee or common depositary with respect to its members, participants and any beneficial owners. The Issuer, the Trustee, any paying agent, any registrar and any agent of the Issuer or the Trustee shall be entitled to deal with the relevant clearing system or its nominee or common depositary, that is the registered holder of any global security for all purposes relating to such global security (including the payment of principal, premium, if any, and interest and additional amounts, if any, and the giving of instructions or directions by or to the owner or holder of a beneficial ownership interest in such global security) as the sole holder of such global security and shall have no obligations to the beneficial owners thereof. None of the Issuer, the Trustee, any paying agent, any registrar or any agent of the Issuer or the Trustee shall have any responsibility or liability for any acts or omissions of the relevant clearing system or its nominee or common depositary with respect to such global security, for the records of any such depositary, including records in respect of beneficial ownership interests in respect of any such global security, for any transactions between the relevant clearing system or its nominee or common depositary and any participant or between or among the relevant clearing system or its nominee or common depositary, any such participant and/or any holder or owner of a beneficial interest in such global security, or for any transfers of beneficial interests in any such global security.

## **The Clearing Systems**

*The following description reflects the Issuer's understanding of the current rules and procedures of DTC, Euroclear and Clearstream, Luxembourg. The Issuer has obtained the information in this section from sources it believes to be reliable, including from DTC, Euroclear and Clearstream, Luxembourg. These systems could change their rules and procedures at any time, and the Issuer takes no responsibility for their actions.*

It is important for you to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date, i.e., the date specified by the purchaser and seller on which the price of the securities is fixed.

When book-entry securities are to be transferred from a DTC seller to a Euroclear or Clearstream, Luxembourg purchaser, the purchaser must first send instructions to Euroclear or Clearstream, Luxembourg through a participant at least one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg will then instruct its New York depositary to receive the securities and make payment for them. On the closing date, the New York depositary will make payment to the DTC participant through which the seller holds its securities, which will make payment to the seller, and the securities will be credited to the New York depositary's account. After settlement has been completed, Euroclear or Clearstream, Luxembourg will credit the securities to the account of the participant through which the purchaser is acting. This securities credit will appear the next day, European time, after the settlement date, but will be back-valued to the value date, which will be the preceding day if settlement occurs in New York. If settlement is

not completed on the intended value date, the securities credit and cash debit will instead be valued at the actual settlement date.

A participant in Euroclear or Clearstream, Luxembourg, acting for the account of a purchaser of securities, will need to make funds available to Euroclear or Clearstream, Luxembourg in order to pay for the securities on the value date. The most direct way of doing this is for the participant to preposition funds (i.e., have funds in place at Euroclear or Clearstream, Luxembourg before the value date), either from cash on hand or existing lines of credit. The participant may require the purchaser to follow these same procedures.

When book-entry securities are to be transferred from a Euroclear or Clearstream, Luxembourg seller to a DTC purchaser, the seller must first send instructions to and preposition the securities with Euroclear or Clearstream, Luxembourg through a participant at least one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg will then instruct its New York depository to credit the book-entry securities to the account of the DTC participant through which the purchaser is acting and to receive payment in exchange. The payment will be credited to the account of the Euroclear or Clearstream, Luxembourg participant through which the seller is acting on the following day, but the receipt of the cash proceeds will be back-valued to the value date, which will be the preceding day if settlement occurs in New York. If settlement is not completed on the intended value date, the receipt of the cash proceeds and securities debit will instead be valued at the actual settlement date.

### **Certificated Securities**

The Issuer will issue Bonds in certificate registered form only if:

- the depository notifies the Issuer that it is unwilling or unable to continue as depository, is ineligible to act as depository or, in the case of DTC, ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934 and the Issuer does not appoint a successor depository or clearing agency within 90 days;
- The Issuer decides it no longer wishes to have all or part of the Bonds represented by a global security.

If a physical or certificated security becomes mutilated, defaced, destroyed, lost or stolen, the Issuer may execute, and the Trustee or the Registrar shall authenticate and deliver, a substitute security in replacement. In each case, the affected holder will be required to furnish to the Issuer and to the Trustee an indemnity under which it will agree to pay the Issuer, the Trustee and any of their respective agents for any losses they may suffer relating to the security that was mutilated, defaced, destroyed, lost or stolen. The Issuer and the Trustee (or the Registrar) may also require that the affected holder present other documents or proof. The affected holder may be required to pay all taxes, expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen security.

If the Issuer issues certificated securities, a holder of certificated securities may exchange them for securities of a different authorized denomination by submitting the certificated securities, together with a written request for an exchange, at the office of the Registrar as specified in the Indenture in New York City, or at the office of any paying agent. In addition, the holder of any certificated security may transfer it in whole or in part by surrendering it at any of such offices together with an executed instrument of transfer.

The Issuer will not charge the holders for the costs and expenses associated with the exchange, transfer or registration of transfer of certificated securities. The Issuer may, however, charge the holders for certain delivery expenses as well as any applicable stamp duty, tax or other governmental or insurance charges. The Registrar may reject any request for an exchange or registration of transfer of any security made within 15 days of the date for any payment of principal of, or premium or interest on the securities.

### **Trustee, Paying Agents, Transfer Agents, Registrar**

The Indenture establishes the obligations and duties of the Trustee, the right to indemnification of the Trustee and the liability and responsibility, including limitations, for actions that the Trustee takes. The Trustee is

entitled to enter into business transactions with the Issuer or any of its affiliates without accounting for any profit resulting from these transactions. Deutsche Bank Trust Company Americas will act as Registrar, Transfer Agent and paying agent.

### **Notices**

The Issuer will mail any notices to the holders of the certificated securities at their registered addresses as reflected in the register maintained by the Registrar. The Issuer will consider any mailed notice to have been given five Business Days after it has been sent. The Issuer will give notices to the holders of a global Bond in accordance with the procedures and practices of the depositary and such notices shall be deemed given upon actual receipt thereof by the depositary. The Issuer will also publish notices to the holders, if and so long as the Bonds are listed on the SGX-ST and the rules of such exchange so require, in a leading newspaper having general circulation in Singapore (which is expected to be the *Business Times*). If publication in a leading newspaper in Singapore is not practicable, the Issuer will have validly given notice if it gives notice in accordance with the rules of the exchange on which the Bonds are listed. The Issuer will consider any published notice to be given on the date of its first publication.

### **Prescription**

Claims against the Issuer for the payment of principal, interest, premium, if any, or other amounts due on the Bonds will be prescribed unless made within five years, with respect to principal, and two years, with respect to interest, premium, if any, or other amounts due on the Bonds, in each case from the date on which such payment first became due.

### **Governing Law and Jurisdiction**

The Indenture and the Bonds will be governed by and construed in accordance with the law of the State of New York without regard to any conflicts of laws principles thereof that would require the application of the laws of a jurisdiction other than the State of New York, except for the Issuer's authorization and execution, which shall be governed by and interpreted in accordance with the laws of Mongolia.

Any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Indenture and the Bonds including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it, shall be referred to and finally resolved by arbitration before the Singapore International Arbitration Centre ("SIAC") under the Arbitration Rules of SIAC prevailing at the time of any dispute. The Issuer appoints Cogency Global Inc. at its registered office at 122 East 42nd Street, 18th Floor, New York, NY 10168 as its agent for service of process in New York and undertakes that, in the event of its ceasing to be registered in the State of New York, it will appoint another person as its agent for service of process in the State of New York in respect of any proceedings. To the fullest extent permitted by applicable law, and for the sole purpose of judicial relief in support of any arbitration (including judicial proceedings to recognize and enforce such judicial relief or a resulting arbitral award or a judgment recognizing such arbitral award), the Issuer irrevocably: (a) submits to the non-exclusive jurisdiction of the state and federal courts sitting in the Borough of Manhattan, New York, New York and all courts to which appeals and/or petitions for certiorari from any such proceedings may be presented ("Courts"); (b) waives and agrees not to raise any objection to the venue of any such Court in relation to the giving of such relief; and (c) waives and agrees not to claim any sovereign or other immunity (including, but not limited to, any immunity under the Foreign Sovereign Immunities Act of 1976, as amended) to which it might otherwise be entitled in any such Court whether before or after a final judgment or arbitral award including, without limitation immunity against enforcement or execution against its property, revenues or other assets in such jurisdiction.

Notwithstanding anything else herein to the contrary, such waiver of sovereign or other immunity shall not be deemed or interpreted to include any waiver of immunity in respect of (i) actions brought against the Issuer arising out of or based upon U.S. federal or state securities laws; (ii) attachment under Mongolian law; (iii) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961; (iv) "consular premises" as defined in the Vienna Convention on Consular

Relations signed in 1963; (v) any other property or assets used solely or mainly for governmental or public purposes in Mongolia or elsewhere; (vi) military property or military assets or property or assets of the Issuer related thereto; or (vii) assets or property forming part of the cultural heritage of Mongolia.

### **Currency Indemnity**

The Issuer's obligation to any holder under a series of the Bonds that has obtained a court judgment affecting those Bonds will be discharged only to the extent that the holder or the Trustee may purchase U.S. dollars, referred to as the "agreement currency," with the judgment currency. If the holder or the Trustee cannot purchase the agreement currency in the amount originally to be paid, the Issuer agrees to pay the difference. The holder and the Trustee, however, agree to reimburse the Issuer for the excess if the amount of the agreement currency purchased exceeds the amount originally to be paid to the holder or the Trustee. If the Issuer is in default of its obligations under such Bonds, however, the holder or the Trustee will not be obligated to reimburse the Issuer for any excess.

## TAXATION

*The following is a general description of certain relevant tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in the jurisdictions mentioned below or elsewhere. Prospective purchasers of Bonds should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this offering memorandum and is subject to any change in law that may take effect after such date.*

### **Taxation in Mongolia**

#### **Interest Payments**

Amendments to the Corporate Income Tax Law and the Personal Income Tax Law were adopted on March 22, 2019 and became effective on January 1, 2020. Under the Corporate Income Tax Law, interest paid to Mongolian resident legal entities will be subject to income tax at a rate of 5%, while interest paid to non-resident legal entities will be subject to income tax at a rate of 20%. The law also provides that the interest tax rate on debt instruments issued by Mongolian-listed companies (exclusive of business entities holding exploration and mining licenses in the mineral, oil and uranium industries) on the domestic and foreign market shall be 5% for both resident and non-resident taxpayers. In respect of any non-resident legal entities or individuals not registered as taxpayers in Mongolia, the Mongolian income tax payable on the interest paid under bonds or securities will be withheld from the interest payment at the rate indicated above or, if the beneficiary of the interest payment is resident in a country with which Mongolia has entered into a double taxation treaty, at a potentially lower rate of tax if so provided in the applicable treaty. Certain of Mongolia's bilateral tax treaties provide two rates of income tax for interest paid by the Issuer to a tax resident of the relevant country, provided such recipient of the interest is also the beneficiary of the interest. One rate is applicable to some, but not necessarily all, interest payments made to banks or similar financial institutions, while the second rate is applicable to all other recipients of interest (other than banks or similar financial institutions). In each treaty, the rate applicable to payments made to banks or other similar financial institutions is lower (in some cases as low as nil per cent) than the rate applicable to payments of interest made to non-banks. However, in respect of banks and similar financial institutions, the relevant treaty must be examined to determine the availability of such special rate and its applicability to payments of interest under the notes, as certain of the conventions do not contain a special rate for payments made to banks or similar financial institutions. In other cases, where a special rate is provided for, the treaty restricts the applicability of the rate to certain specified types of interest payments. As of the date of this offering memorandum, bilateral tax treaties are in place between Mongolia and Austria, Belgium, China, France, Germany, Italy, Russia, Singapore, South Korea and Switzerland. This list is not exhaustive. The applicable tax rate in respect of interest payments received by non-banks of these countries is 10%. As noted above, a lower rate may be applicable under other treaties in respect of interest paid to a bank or similar financial institution.

However, both the Corporate Income Tax Law and the Personal Income Tax Law provide that income derived from bond payments, interests and forfeitures on bonds or securities issued by the Government or DBM are exempt from tax.

Accordingly, interest payments made by the Issuer in respect of the Bonds issued to any corporation or individual, including any foreign corporation or individual whether or not such foreign corporation or individual qualifies as a non-resident taxpayer in Mongolia, is exempt from withholding of Mongolian income tax.

In respect of the Bonds issued with original discount under Mongolian law the definition of interest may be interpreted to include original issue discount, which is the excess of the redemption price at maturity of the Bonds over its issue price. Mongolian law does not, however, provide any guidance as to how original issue discount is to be recognized and the relevant tax is to be paid. If deemed to be interest, then the exemption from Mongolian income tax noted above would apply.

## ***Capital Gains***

Pursuant to the Personal Income Tax Law, payments with respect to bonds issued by the Issuer will be exempt from taxation. Accordingly, any capital gains realized by non-resident individuals with respect to the Bonds will be tax exempt.

The Corporate Income Tax Law also imposes a withholding tax on capital gains realized on the sale of securities, including the Bonds. Moreover, it appears that any capital gains realized by non-resident legal entities with respect to the Bonds will not be taxable in Mongolia. This position may change in the future depending on Mongolia's tax policies and changes in the relevant laws. Further, as discussed above, relief from Mongolian tax obligations in this regard may be available to non-resident taxpayers covered by one of Mongolia's bilateral tax conventions. Interested parties should consult their own tax advisers to determine potential applicability.

No stamp duties or similar taxes or charges are payable under the laws of Mongolia in respect of the execution, issue, sale or transfer of the Bonds.

## **United States Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of Bonds as of the date hereof. This summary deals only with Bonds that are held as capital assets by a U.S. holder (as defined below) that acquired the Bonds upon original issuance at their initial offering price.

For purposes of this summary, a "U.S. holder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a domestic corporation or otherwise subject to U.S. federal income tax on a net income basis in respect of its investment in the Bonds.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. This discussion does not consider the effect of any applicable state, local or foreign tax laws, consequences arising under special timing rules prescribed under section 451(b) of the Code, or any aspect of U.S. federal taxation other than income taxation (such as estate and gift tax laws, the alternative minimum tax or Medicare tax on net investment income). In addition, it does not address particular U.S. federal income tax consequences or considerations that may be applicable to investors subject to special treatment under the U.S. federal income tax laws, such as financial institutions; dealers in securities or currencies; traders in securities that elect to use the mark-to-market method of accounting for their securities; regulated investment companies; real estate investment trusts, partnerships or other pass-through entities and the partners therein, tax-exempt entities; insurance companies; persons holding the Bonds as part of a hedging, integrated, constructive sale or conversion transaction or a straddle; nonresident alien individuals present in the United States for more than 182 days in a taxable year; and investors whose "functional currency" is not the U.S. dollar.

**If you are considering the purchase of Bonds, you should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of the Bonds, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

## **Payments of Interest and any Additional Amounts**

Payments of stated interest on the Bonds, including the amount of any withholding taxes and any additional amounts paid with respect thereto, generally will be taxable to you as ordinary interest income at the time that the payments accrue or are received, in accordance with your method of accounting for U.S. federal income tax purposes. It is expected, and this discussion assumes, that the Bonds will be issued without original issue discount ("OID") for U.S. federal income tax purposes. In general, however, if the Bonds are issued with OID at or above a *de minimis* threshold, you will be required to include OID as ordinary gross

income under a “constant yield method” before the receipt of cash attributable to such income, regardless of your regular method of accounting for U.S. federal income tax purposes.

Interest on the Bonds and any additional amounts generally will be treated as foreign source income for U.S. federal income tax purposes and generally will constitute “passive category” income for the purpose of calculating the foreign tax credit limitation. As described above under “—*Taxation in Mongolia*,” interest on the Bonds payable to a U.S. holder generally is exempt from withholding of Mongolian income tax. The rules governing the foreign tax credit and the foreign tax credit limitation are complex. You are urged to consult your tax advisor regarding these rules.

### **Sale, Exchange or Other Taxable Disposition of the Bonds**

You will generally recognize gain or loss on the sale, exchange or other taxable disposition of the Bonds in an amount equal to the difference between the amount realized on the disposition (less any amounts attributable to accrued but unpaid interest, which will be taxable as such) and your adjusted tax basis in the Bonds. Your adjusted tax basis in a Note generally will equal your purchase price in that Note. Gain or loss that you recognize upon a sale, exchange or other taxable disposition of the Bonds generally will be U.S. source capital gain or loss, and generally will be long-term capital gain or loss if, at the time of the disposition, you have held the Bonds for more than one year. Certain non-corporate U.S. holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deduction of capital losses is subject to limitations.

### **Foreign Financial Asset Reporting**

Individual U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Bonds issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. You should consult your own tax advisors concerning the application of these rules to your investment in the Bonds, including the application of the rules to your particular circumstances.

### **Information Reporting and Backup Withholding**

Payments in respect of the Bonds that are paid within the United States or through certain U.S.-related financial intermediaries are generally subject to information reporting, unless you are a corporation (other than an S Corporation) or other exempt recipient, and when required, demonstrate this fact. In addition, payments that you receive may be subject to backup withholding, unless you provide an accurate taxpayer identification number and certify that you have not lost your exemption from backup withholding. The amount of any backup withholding collected from you will be allowed as a credit against the your U.S. federal income tax liability and may entitle you to a refund, provided that certain required information is timely furnished to the U.S. Internal Revenue Service. You should consult your tax advisors about these rules and any other reporting obligations that may apply to your ownership or disposition of Bonds.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement, June 28, 2021 between the Issuer and the initial purchasers named below (the “Initial Purchasers”), each of the Initial Purchasers has severally agreed with the Issuer to purchase the principal amount of the 2027 Bonds and the 2031 Bonds set forth opposite such Initial Purchaser’s name:

<b>Name of Initial Purchasers</b>	<b>Principal amount of 2027 Bonds to be purchased</b>
J.P. Morgan Securities plc .....	US\$125,000,000
Morgan Stanley & Co. International plc .....	US\$125,000,000
Nomura International (Hong Kong) Limited.....	US\$125,000,000
The Hongkong and Shanghai Banking Corporation Limited .....	US\$125,000,000
<b>Total</b> .....	<b>US\$500,000,000</b>

<b>Name of Initial Purchasers</b>	<b>Principal amount of 2031 Bonds to be purchased</b>
J.P. Morgan Securities plc .....	US\$125,000,000
Morgan Stanley & Co. International plc .....	US\$125,000,000
Nomura International (Hong Kong) Limited.....	US\$125,000,000
The Hongkong and Shanghai Banking Corporation Limited .....	US\$125,000,000
<b>Total</b> .....	<b>US\$500,000,000</b>

The 2027 Bonds issued for cash will be purchased at the issue price of 98.668% of the principal amount thereof. The 2031 Bonds issued for cash will be purchased at the issue price of 98.023% of the principal amount thereof. The Issuer will be paying a combined management and underwriting commission to the Initial Purchasers and will reimburse the Initial Purchasers in respect of certain of their expenses. The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities incurred in connection with the issue and sale of the Bonds, or to contribute to payments that the Initial Purchasers may be required to make because of any of these liabilities.

The Initial Purchasers are offering the Bonds in accordance with the terms of the Purchase Agreement and subject to certain conditions contained in the Purchase Agreement, including the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Bonds, certificates of the Issuer and legal opinions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to payment of the Bonds.

Each of the Initial Purchasers or their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Bonds and/or other securities of the Issuer, its political subdivisions or affiliates at the same time as the offer and sale of Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Bonds).

### **Other Relationships**

The Initial Purchasers (including the Development Finance Structuring Agent) are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Each of the Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer, its political subdivisions and its affiliates, for which they received or will receive customary fees and expenses. J.P. Morgan Securities

plc will not receive any fee for acting as the Development Finance Structuring Agent. In the ordinary course of their various business activities, the Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve the Issuer's securities and/or instruments. The Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In addition, the Initial Purchasers (including the Development Finance Structuring Agent) and/or their respective affiliates serve as agents and lenders under certain existing credit facilities with the Issuer or its affiliates/agencies. See "Public Sector Debt—Public Sector Debt." The Initial Purchasers (including the Development Finance Structuring Agent) and/or their respective affiliates who have acted as agents and/or lenders under existing credit facilities of the Issuer or its affiliates/agencies may, from time to time, take steps to mitigate their risks with respect to such existing credit facilities. Any role of the Initial Purchasers (including the Development Finance Structuring Agent) and/or their respective affiliates as agents and/or lenders under such existing credit facilities should not be taken as a recommendation to purchase the Bonds.

The Initial Purchasers or certain of their respective affiliates may purchase the Bonds and be allocated Bonds for asset management and/or proprietary purposes and not with a view to distribution.

The Initial Purchasers have been mandated as dealer managers in connection with tender offers for the Target Bonds by the Issuer. See "*Summary of the Offering*" and "*Use of Proceeds.*"

## **Selling Restrictions**

### ***United States***

The Bonds have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Bonds are being offered and sold only (a) outside the United States as defined in Regulation S in offshore transactions in accordance with Regulation S and (b) in the United States to a limited number of QIBs as defined in Rule 144A in connection with resales by the Initial Purchasers in accordance with Rule 144A.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the U.S. Securities Act.

The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

### ***Hong Kong***

No steps have been taken to register this offering memorandum as a prospectus in Hong Kong. Subscriptions will not be accepted from any person other than the person to whom this offering memorandum has been delivered. This offering memorandum is delivered only to the recipient and may not be used, copied, reproduced or distributed, in whole or in part, to any other person.

Each Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds, other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, (whether in Hong Kong or elsewhere) any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning ascribed to it in the SFO and any rules made under the SFO.

### ***Japan***

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each of the Initial Purchasers, on behalf of itself and each of its affiliates that participates in the initial distribution of the Bonds has represented and agreed with the Issuer that it has not offered or sold and will not offer or sell any Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Mongolia***

Each Initial Purchaser has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Bonds in the territory of Mongolia.

### ***People’s Republic of China***

Each Initial Purchaser has represented, undertaken, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the Securities Laws of the People’s Republic of China.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

**Notification under Section 309B of the SFA** – The Issuer has determined, and hereby notifies all persons (including relevant persons (as defined in Section 309A(1) of the SFA)), that the Bonds are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### ***Denmark***

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer, sell or deliver any Bonds directly or indirectly in Denmark by way of a public offering, unless in compliance with the Danish Consolidated Act No. 1229 of 7 September 2016 on Trading in Securities, as amended, and any Executive Orders issued thereunder and in compliance with Executive Order No. 623 of April 24, 2015 to the Danish Financial Business Act.

### ***European Economic Area and the United Kingdom***

Each Initial Purchaser acknowledges (as to itself only) that the Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA") or in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Each Initial Purchaser further acknowledges (as to itself only) that no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation"), for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Each Initial Purchaser has agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied with, and will comply with, all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### **France**

This offering memorandum has not been and will not be submitted to the clearance procedure (*visa*) nor approved by the *Autorite des marches financiers* (the “AMF”). The Bonds have not been and will not be, directly or indirectly, offered or sold to the public in France. This offering memorandum and any other documents or offering materials relating to the offering of the Bonds may only be distributed or caused to be distributed to: (i) qualified investors (*investisseurs qualifiés*) acting for their own account and/or (ii) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour compte de tiers*), all as defined in, and in accordance with, Articles L. 411-2 and D. 411-1 of the French Financial and Monetary Code (*Code monétaire et financier*).

The Bonds so purchased may not be offered or resold, directly or indirectly, to the public in France other than in compliance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Financial and Monetary Code (*Code monétaire et financier*).

### **The Netherlands**

The Bonds have not been and will not be offered in The Netherlands other than to persons or entities which are qualified investors (*gekwalificeerde belegger*) as defined in article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### **Republic of Italy**

The offering of the Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Bonds may be offered, sold or delivered, nor may copies of the offering memorandum or of any other document relating to the Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “Financial Services Act”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time (“Regulation No. 11971”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Bonds or distribution of copies of the offering memorandum or any other document relating to the Bonds in the Republic of Italy under (a) or (b) above must:

- (1) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the “Banking Act”); and
- (2) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of

the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

### ***Switzerland***

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Bonds will not be listed on the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Bonds may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Bonds with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

### ***General***

No action has been taken by the Issuer or any of the Initial Purchasers that would, or is intended to, permit a public offer of the Bonds or possession or distribution of this offering memorandum or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Initial Purchaser has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

The materials relating to the offering of the Bonds do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering of the Bonds be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

### ***Stabilization***

In connection with the Offering, J.P. Morgan Securities plc (the “Stabilizing Manager”) or persons acting on behalf of J.P. Morgan Securities plc may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail but in doing so the Stabilizing Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilizing Manager will undertake stabilization action. Any stabilization will be conducted in accordance with all applicable laws and regulations. Neither the Issuer nor the Stabilizing Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer nor the Stabilizing Manager makes any representation that the Stabilizing Manager or its agent will engage in such transactions or that such transactions, once commenced, will not be discontinued with or without notice.

## TRANSFER RESTRICTIONS

*Due to the following significant transfer restrictions applicable to the Bonds, investors are advised to consult legal counsel prior to making any purchase, offer, resale, pledge, or other transfer or disposition of the Bonds.*

The Bonds have not been registered and will not be registered under the U.S. Securities Act or any other securities laws, and may not be offered or sold in the United States (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Bonds are being offered and sold (1) in the United States only to QIBs, as defined in Rule 144A in compliance with Rule 144A, and (2) outside the United States in offshore transactions pursuant to Regulation S.

Each investor of a Bond, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

- (1) represent that it is purchasing the Bonds for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) located outside the United States;
- (2) acknowledge that the Bonds have not been registered under the U.S. Securities Act and may not be offered or sold within the United States except as set forth below;
- (3) if it is a person other than a purchaser located outside the United States, agree that if it should resell or otherwise transfer the Bonds within the time period referred to in Rule 144(d) under the U.S. Securities Act after the original issuance of the Bonds, it will do so only (a) to the Issuer, (b) to a QIB in compliance with Rule 144A, (c) outside the United States in an offshore transaction in compliance with Rule 903 or 904 of Regulation S under the U.S. Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 (if available) but only upon delivery to the Issuer of an opinion of counsel in form and scope satisfactory to the Issuer or (e) pursuant to an effective registration statement under the U.S. Securities Act;
- (4) agree that it will deliver to each person to whom it transfers Bonds notice of any restriction on transfer of such Bonds;
- (5) understand and agree that Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Bonds and that Bonds offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one or more Regulation S Global Bonds;
- (6) understand that unless registered under the U.S. Securities Act, the Rule 144A Global Bond and Definitive Bonds issued in exchange for a beneficial interest in the Rule 144A Global Bond will bear a legend to the following effect, unless otherwise agreed by the Issuer and the holder thereof:

“THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND (A) ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES

ACT, OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES; (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THESE SECURITIES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE; AND (C) NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR REALES OF THE SECURITIES.”

- (7) acknowledge that the Issuer, the Transfer Agent and the Initial Purchasers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgments, representations or warranties deemed to have been made by it by its purchase of Bonds are no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers; and
- (8) if it is acquiring Bonds as a fiduciary or agent for one or more investor accounts, represent that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

## **LEGAL MATTERS**

Certain legal matters under New York law relating to the Bonds and this offering will be passed upon for the Issuer by Cleary Gottlieb Steen & Hamilton (Hong Kong), special U.S. counsel to the Issuer, and for the Initial Purchasers by Mayer Brown LLP, special U.S. counsel to the Initial Purchasers. Certain legal matters under the laws of Mongolia relating to the validity of the Bonds and this offering will be passed upon for the Issuer by Melville Erdenedalai LLP, special Mongolian counsel to the Issuer, and the Ministry of Justice and Internal Affairs of Mongolia, and for the Initial Purchasers by DB & GTS LLP, special Mongolian counsel to the Initial Purchasers. With respect to certain matters governed by the laws of Mongolia, Cleary Gottlieb Steen & Hamilton (Hong Kong) may rely on the opinion of Melville Erdenedalai LLP and the Ministry of Justice and Internal Affairs, and Mayer Brown LLP may rely on the opinion of DB & GTS LLP.

## GENERAL INFORMATION

(1) The issuance of the Bonds has been authorized by Resolution No. 170 of the Government of Mongolia dated June 16, 2021.

(2) The Bonds have been accepted for clearance through DTC, Euroclear and Clearstream as follows:

<u>Bonds</u>	<u>Rule 144A ISIN</u>	<u>Rule 144A CUSIP</u>	<u>Regulation S ISIN</u>	<u>Regulation S CUSIP</u>
2027 Bonds	US60937LAF22	60937L AF2	USY6142NAF51	Y6142N AF5
2031 Bonds	US60937LAE56	60937L AE5	USY6142NAE86	Y6142N AE8

(3) To the best of its knowledge, except as disclosed in this offering memorandum, the Issuer is not involved in any litigation, arbitration, or administrative proceedings relating to the claims or amounts which are material in the context of the issuance of Bonds nor, so far as it is aware, having made reasonable inquiries, is any such material litigation or arbitration or administrative proceeding involving it pending or threatened.

(4) Except as disclosed in this offering memorandum, there has been no material adverse change in the fiscal, economic or political condition or affairs of the Issuer since December 31, 2020 which is material in the context of the issue of the Bonds.

(5) Approval-in-principle has been received for the listing and quotation of the 2031 Bonds on the SGX-ST. Application will be made for the listing and quotation of the 2027 Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Bonds are listed on the SGX-ST.

For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore where the Bonds may be presented or surrendered for payment or redemption in the event that a Global Bond is exchanged for definitive Bonds. In addition, in the event that a Global Bond is exchanged for definitive Bonds, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Bonds, including details of the paying agent in Singapore.

(6) Each of the Purchase Agreement among the Issuer and the Initial Purchasers, the Indenture and the Bonds are governed by the laws of the State of New York. However, the laws of Mongolia will govern all matters relating to authorization, execution and delivery by the Issuer of the Bonds and the Indenture.

## ISSUER

**The Government of Mongolia**  
c/o the Ministry of Finance  
Zasgiin Gazryn II bair  
S. Danzangiin Gudamj 5/1  
Ulaanbaatar 15160  
Mongolia

## TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR

**Deutsche Bank Trust Company Americas**  
Trust and Agency Services  
60 Wall Street, 24<sup>th</sup> Floor  
New York, NY 10005  
United States of America

## INITIAL PURCHASERS

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London, E14 5JP  
United Kingdom

**Morgan Stanley & Co. International plc**  
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Canary Wharf  
London E14 4QA  
United Kingdom

**Nomura International (Hong Kong) Limited**  
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International Finance  
Center  
8 Finance Street, Central  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**  
Level 17, HSBC Main  
Building  
1 Queen's Road Central  
Hong Kong

## DEVELOPMENT FINANCE STRUCTURING AGENT

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## LEGAL ADVISERS

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Ulaanbaatar-14251  
Mongolia



**THE GOVERNMENT OF MONGOLIA**

**US\$500,000,000 3.500% Bonds Due 2027**

**US\$500,000,000 4.450% Bonds Due 2031**

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**Offering Memorandum**

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*Joint Lead Managers and Joint Bookrunners  
(in alphabetical order)*

**HSBC**

**J.P. Morgan**

**Morgan Stanley**

**Nomura**

*Development Finance Structuring Agent*

**J.P. Morgan**

June 28, 2021

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