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.

STRICTLY CONFIDENTIAL

THE GOVERNMENT OF MONGOLIA
US$350,000,000 7.875% BONDS DUE 2029
ISSUE PRICE 99.017%

The US$350,000,000 7.875% bonds due 2029 (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 "Offering"). 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 June 5 and December 5 of each year, commencing June 5, 2024. The Bonds will mature on June 5, 2029. 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 124 of this offering memorandum (the "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 66⅔% 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 124.

For a more detailed description of the Bonds, see "*Description of the Bonds*" beginning on page 119.

Investment in the Bonds involves risks. See "*Risk Factors*" beginning on page 11 of this 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 Bonds on the Singapore Exchange Securities Trading Limited (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 and the rules of the SGX-ST so require.

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 December 5, 2023.

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

HSBC **J.P. Morgan**

The date of this Offering Memorandum is November 28, 2023.

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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 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"). 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.

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*."

Notification under Section 309B of the Securities and Futures Act 2001, as modified or amended from time to time (the "SFA"): 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).

Important Notice to Prospective Investors

Prospective investors should be aware that certain intermediaries in the context of this offering of the Bonds, including certain Joint Lead Managers, are "capital market intermediaries" (CMIs) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the SFC Code). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" (OCs) for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (**Association**) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the Bonds and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any Joint Lead Manager, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the Joint Lead Manager or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to this offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any Joint Lead Manager, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Joint Lead Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to this offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Joint Lead Managers and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

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

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; "U.S. dollars", "$" and "US$" refer to United States dollars, the lawful currency of the United States of America; "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 September 30, 2023, as published by the Bank of Mongolia, of MNT3,459.5 to US$1.00. Other Tugrik amounts in this Offering Memorandum where 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 November 17, 2023 was MNT3,440.0 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 2023 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"), European Bank for Reconstruction and Development ("EBRD"), 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, including the recent Israel-Hamas war, the ongoing war in Ukraine and the response of the international community relating to Russia; and
- the general state of the global economy, including the residual impact of the COVID-19 pandemic globally;

as well as internal factors, such as:

- general economic and business conditions in Mongolia;
- 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;
- any residual impact on the Mongolian economy and government finances of the measures taken to prevent the spread of COVID-19;
- the ability of Mongolia to implement important economic and structural reforms;
- the levels of foreign direct and portfolio investment;
- development financing of socioeconomic projects;
- delays in the development of mining and infrastructure assets;
- pending and potential future disputes with investment partners relating to important mines and other foreign investment projects;

- 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 and the laws pertaining to civil procedure and enforcement of court decisions. 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 legal restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls imposed by laws or regulations. 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 2012 through 2022, Mongolia experienced average real GDP growth of 5.2% 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:

	As of and for the year ended December 31,					As of and for the nine months ended September 30,	
Key Indicators	**2018**	**2019**	**2020**	**2021**	**2022**	**2022**	**2023[1][2]**
Nominal GDP (MNT billions)	32,582.6	37,839.2	37,453.3	43,555.5	53,851.5	35,908.8	46,502.2
Nominal GDP (US$ millions)[3]	13,178.0	14,206.6	13,312.9	15,286.4	17,146.3	11,760.3	13,382.3
Real GDP (MNT billions)[4]	26,446.7	27,928.3	26,655.4	27,091.7	28,455.1	20,286.9	21,695.0
Real GDP (US$ millions[3])[4]	10,696.3	10,485.6	9,474.8	9,508.2	9,060.1	6,644.0	6,243.4
Real GDP growth	7.7	5.6	(4.6)	1.6	5.0	3.8	6.9
Nominal GDP per capita (MNT thousands)[5]	10,314.1	11,855.6	11,612.9	13,267.9	16,121.0	N/A	N/A
Nominal GDP per capita (US$[3])[5]	4,171.5	4,451.1	4,127.9	4,656.5	5,132.9	N/A	N/A
Year-on-year inflation	8.1	5.2	2.3	13.8	13.2	13.8	10.1
Exports (US$ millions[3])	7,011.8	7,619.6	7,576.3	9,241.1	12,538.6	8,924.2	11,296.2
Imports (US$ millions[3])	5,875.0	6,127.5	5,298.9	6,845.5	8,704.4	6,356.4	6,755.5
Balance of payments(US$ millions[3])	(141.6)	452.9	786.9	(221.6)	(727.2)	(1,358.9)	791.4
Unemployment rate (%)	7.8	10.0	7.0	7.8	6.7	5.4	5.2
Gross external debt (US$ millions[3])[6]	28,714.9	30,702.3	32,361.8	33,805.5	33,344.8	32,515.0	33,790.2[7]
Gross foreign exchange reserves (US$ millions[3])	3,549.6	4,348.6	4,534.2	4,366.1	3,399.6	2,794.6	4,124.4
Gross foreign reserves import cover (months)	7.6	9.1	10.7	7.7	4.6	3.5	5.3
Population (in thousands)	3,238.5	3,296.9	3,357.5	3,409.9	3,457.5	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 September 30, 2023 unless otherwise indicated.

(3) The following exchange average rates (representing the average of monthly exchange rates for any given year or period as published by the Bank of Mongolia) were applied: 2018 – MNT2,472.5 = US$1.00, 2019 – MNT2,663.5 = US$1.00, 2020 – MNT2,813.3 = US$1.00, 2021 – MNT2,849.3 = US$1.00, 2022 – MNT3,140.7 = US$1.00, September 30, 2023- MNT 3,474.9 = US$1.00.

(4) Real GDP calculated at 2015 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.

(7) Figures as of June 30, 2023.

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 war between Russia and Ukraine and its broader implications, including economic uncertainty, the effects on global commodity markets, particularly food and energy markets, and measures that various countries have taken against Russia, which have complicated doing business with Russia, which is one of Mongolia's major trading partners;

- global inflationary trends and central bank policy responses, including interest rate rises, and their effects, including significant exchange rate effects;

- a deterioration in economic and trade relations between the United States and China;

- geopolitical tensions and conflicts in various countries and regions, in particular the Israel-Hamas war, the war between Ukraine and Russia, Taiwan/China tensions, and their ramifications for the social and economic instability in adjacent regions, in particular in the Middle East, Europe and East Asia, respectively;

- the slowdown of economic growth in China, as compared with its previous extended period of very high growth;

- the COVID-19 pandemic caused by new strains of coronavirus, including its variants and subvariants; and

- fluctuations in coal, copper, nickel and other commodity prices.

The value of the Tugrik relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely in 2022, and the value of the Tugrik has generally declined. In 2023, the value of the Tugrik relative to the U.S. dollar has been relatively stable. 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's economic growth was adversely affected by the COVID-19 pandemic, with GDP contracting by 4.6% in 2020 and growing by 1.6% in 2021, compared to growth of 5.6% in 2019. Following the Government's implementation of COVID-19 mitigation measures and economic stimulus policies, Mongolia's economic performance showed signs of recovery. In 2022, Mongolia's GDP grew by 5.0%. The value of the Tugrik against U.S. dollar stabilized in the first nine months of 2023 and Mongolia's GDP growth was 6.9%, compared to growth of 3.8% in the same period of the prior year. During 2022 and the first nine months of 2023, Mongolia recorded imports of US$8.7 billion and US$6.8 billion, respectively, and exports of US$12.5 billion and US$11.3 billion, respectively, resulting in a trade balance surplus of US$3.8 billion and US$4.5 billion in these respective periods. In 2021, exports were up by 22.0% as compared to the prior year, and the Government's fiscal revenues were up by 37.0% in 2021 as compared to the prior year. In comparison, in 2020, exports were down by 0.6% as compared to the prior year, and the Government's fiscal revenues were down by 13.4% compared to the previous year.

Mongolia's economic outlook in 2023 and for the foreseeable future remains uncertain as a result of, among other factors, (i) the fiscal and monetary policies implemented by the Government and regulatory authorities to alleviate the effects of the COVID-19 pandemic by increasing liquidity and supporting incomes, (ii) adverse conditions in the Mongolian and global economies and financial markets, including due to the ongoing war between Russia and Ukraine, including budgetary impacts as governments address the resulting higher food and energy prices and central banks have raised policy rates to address ongoing global inflation, and (iii) factors such as fluctuations in coal, copper and other commodity prices and interest and exchange rates, higher unemployment, and lower consumer confidence. See "*Risk Factors—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.*" and *"—Uncertainties and instability in global market conditions could adversely affect Mongolia's economy.*"

Global Cooperation in Mining and Mineral Resource Sector

Mongolian President Khurelsukh Ukhnaa and Chinese President Xi Jinping met in Beijing, China on November 27 and 28, 2022, and during these meetings the two leaders agreed to substantially increase Mongolia's exports of mineral products, especially coal products, to China. To maximize mineral exports and improve the operations at the cross-border checkpoints, the two leaders discussed enhancing the transshipment facilities at the cross-border checkpoint of the Tavan Tolgoi–Gashuun Sukhait railway as well as upgrading the infrastructure of the existing Zamyn Uud–Erlian border checkpoint. These railway operations and the more efficient handling of cross-border shipments have facilitated higher levels of foreign trade between Mongolia and China. On May 1, 2023, Mongolia's Minister of Foreign Affairs Batmunkhiin Battsetseg visited China, and during the discussions both countries agreed to work on the long-term and stable supply of Mongolia's mining products to the Chinese market to reach the goals of increasing the trade turnover up to US$20 billion in the coming years. Both countries also agreed to renew the 1955 Mongolia-China Border Railway Agreement and intensify the construction work at the Gashuun Sukhait-Gantsmod railway border-crossing port. In addition, Mongolia's coal exports were rebounding after China's removal of pandemic border controls. In addition, in 2022, the Tavan Tolgoi–Gashuun Sukhait railway, which is a major export route for coal from Mongolia to China, began operations. The commissioning of this railway has helped increase the production and trade volume of minerals of Tavan Tolgoi and facilitated more efficient export and import of goods. In light of the foregoing, coal exports in the first nine months of 2023 were 48.9 million metric tons, an increase of 157% compared to the first nine months of 2022.

On June 27, 2023, Jose W. Fernandez, the U.S. Under Secretary of State for Economic Growth, Energy, and the Environment, signed a memorandum of understanding with the Government of Mongolia to promote secure and resilient critical mineral supply chains in the Indo-Pacific region. This memorandum of understanding established a framework for joint efforts between Mongolia and the United States in providing technical support to enhance Mongolia's capacity for attracting investments in the mineral resource sector—a crucial component of the global clean energy transition. The significance of critical minerals and rare earth elements in the Mongolian and U.S. economies is increasing, and the development of these resources was identified as instrumental in fortifying the economic foundations of both nations. The United States expressed its readiness to explore opportunities to aid Mongolia in the development of this sector, including facilitating private sector investments. Moreover, this memorandum of understanding underscores the broader U.S. objective of advancing high environmental, social, and governance standards in the global mining sector.

In October 2023, during President Khurelsukh's visit to France, the two sides signed a joint venture protocol agreement valued at €1.6 billion between Erdenes Mongol, Mongolia's state-owned mining corporation, and Orano Group, a French mining company. The agreement covers exploration for uranium deposits in Zuuvch-Ovoo in Mongolia's southwestern Dornogovi province. This project is expected to commence production in 2028. In addition, the two sides also agreed to cooperate in lithium exploration using satellite imagery. This cooperation signifies improved relations between the two governments. Mongolia is seeking to expand diplomatic ties beyond China and Russia through its "Third Neighbor" policy, while France is aiming to diversify its sources of rare earths and other materials.

Oyu Tolgoi Mine Commenced full Operation

On March 13, 2023, the Oyu Tolgoi copper and gold mine announced that it had commenced underground production. The Prime Minister of Mongolia Oyun-Erdene and Rio Tinto Chief Executive Jakob Stausholm celebrated the commencement at Oyu Tolgoi in the Gobi Desert. Oyu Tolgoi is expected to produce around 500,000 metric tons of copper per year on average from 2028 to 2036 from its combined open pit and underground operations, and an average of around 290,000 metric tons of copper per year over the mine's reserve life of around 30 years. The copper content of the ore produced by Oyu Tolgoi is expected to increase, with the copper head grade produced expected to increase to 1.24% in 2028 from 0.42% in 2022. Revenue generated from Oyu Tolgoi is expected to increase, and the unit cost of copper is expected to decrease as a result of the project commencing underground operations. According to Rio Tinto, Oyu Tolgoi is expected to increase the export revenue of Mongolia by 16.7% and have a 1.4x multiplier effect on the Mongolian economy. The Government expects to start receiving dividends in 2037.

Initial Public Offering of Mongolian Banks on the Mongolian Stock Exchange

Pursuant to amendments to the Banking Law, banks that are designated as "systemic" by the Bank of Mongolia were required to conduct an initial public offering ("IPO") by June 30, 2022. This deadline was subsequently extended to June 30, 2023. As of June 30, 2023, Mongolia's five domestic systemically important banks ("D-SIBs"), namely State Bank, Golomt Bank, Khan Bank, Trade and Development Bank, and Xac Bank, had all completed their listings on the Mongolian Stock Exchange. These banks offered between 5.0% and 11.4% of their total shares to the public and raised approximately MNT452.6 billion through their IPOs. These capital market transactions and the related trading activities are expected to diversify Mongolia's historically mining-focused economy, and the Mongolian Stock

Exchange will have an opportunity to serve as a vehicle for capital formation for other economically important sectors, including agriculture, banks and textiles.

Russia-Ukraine War

On February 24, 2022, Russia launched a full-scale military attack on Ukraine. The subsequent war, which is still ongoing, significantly amplified existing geopolitical tensions among Russia, Ukraine, the North Atlantic Treaty Organization, the U.S., the EU and its member states, the UK and various other countries, and has led to significant volatility and disruption in global trade and financial markets. In response to Russia's military actions in Ukraine, various countries and organizations, including the U.S., the U.K., and the EU, have instituted broad-ranging economic sanctions against Russia, including an agreement between the U.S. and the EU to remove certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") payment system.

The imposition of sanctions and Russia's withholding of its oil and gas—at Russia's own initiative to make these strategic resources its economic weapon or as a result of Russia' inability to settle payments for its oil and gas through SWIFT—have had a material and adverse effect on economic markets generally, and has adversely affected Mongolia's economy and its current and future trade with Russia. As a land-locked developing country located between Russia and China, Mongolia relies heavily on Russia for many of its imports, including petroleum and certain agriculture products, and the country has limited space for geographical diversification. Furthermore, as a result of measures taken by major Western banks in response to the sanctions against Russia, Mongolia's payments to Russia for energy were temporarily delayed. The Government has worked closely with its Western partners to resolve issues with the corresponding banks to Russia and is now relying on a combination of general and specific licenses to make these payments. See "*Risk Factors—Risks Relating to Mongolia—Mongolian companies, including state-owned entities, have dealings with entities subject to international sanctions*."

The Russia-Ukraine war has resulted in higher prices for natural gas, oil, and grains—Russia's major export products—and there has been a significant drop in export volumes and overall supplies in the markets for these goods. Mongolia's imports of petroleum products from Russia were temporarily suspended for 15 days beginning September 21, 2023 as Russia imposed a ban on the export of petroleum products. For Mongolia, the prices for energy and food increased in both 2022 and 2023, and Mongolia's inflation rate was 13.2% in 2022 and 10.1% in the nine months ended September 30, 2023. To alleviate the supply shortage of imported goods from Russia, the Government has held regular discussions with Russia. For example, in September 2022, following talks held during the 7th Eastern Economic Forum in Vladivostok, Russia, Russia agreed to supply Mongolia with AI-92 standard gasoline at a stable price and diesel fuel at a 10% discount until 2027. On September 25, 2023, at the first meeting of the Joint Commission on Inter-Parliamentary Cooperation between Mongolia and the Russian Federation held in Ulaanbaatar, the two countries agreed to further cooperation and negotiation on fuel prices and fuel supply. Mongolia expects to continue to trade with Russia without violating the relevant international sanctions and restrictions to maintain Mongolia's economic stability. In addition, in light of adverse geopolitical conditions, Parliament approved the "To Prevent the Rise in Price and Shortage of Key Commodities Caused by the International Crisis and Reduce their Impact" bill. This bill was passed on April 15, 2022, became effective on April 22, 2022, and remained in effect until the end of 2022.

The duration and impact of the ongoing Russia-Ukraine war remain unpredictable. The associated risks, including globally high inflation, rising energy prices, particularly in Europe, and increased uncertainties in financial markets, are likely to remain, and sanctions against Russia are likely to persist. Any occurrence and continuation of the foregoing may limit Mongolia's ability to trade and cooperate with Russia and accordingly may adversely affect Mongolia's economic conditions and growth prospects. See "*Risk Factors—Risks Relating to Mongolia—Mongolian companies, including state-owned entities, have dealings with entities subject to international sanctions*."

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: 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 Government evaluates the macroeconomic impact of plans and projects under the Vision-2050 framework 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. Mongolia commenced a 50MW expansion of the Choibalsan thermal power plant and a 115MW expansion of the Amgalan thermal power plant projects under this policy framework. As of September 30, 2023, these expansion projects had a completion rate of 65% and 80%, respectively.

New Revival Policy

Mongolia's "New Revival Policy," which was approved by Resolution No. 106 of 2021 of Parliament on December 30, 2021, targets to strengthen Mongolian economic independence, reduce the COVID-19 epidemic's impact on its economy, resolve factors limiting economic development, and lay a solid foundation for the effective implementation of Vision-2050. Mongolia has commenced the relevant work, including a framework for the implementation of a medium-term target program of up to ten years aimed at improving Mongolia's economy, infrastructure, and state productivity. Within the New Revival Policy's framework, Mongolia has identified, and aspires to eliminate, six recovery areas that limit Mongolia's development: border ports, energy, industry, urban and rural development, green development, and state productivity. By eliminating problems in these six areas, Mongolia aims to increase its economic diversification. The New Revival Policy envisages a total of 94 projects, with the total projected costs of US$24.6 billion. Among these costs, 45.2%, or up to US$11.0 billion for 32 projects, are expected to be funded by direct investment; 44.6%, or up to US$10.9 billion for 40 projects, are expected to be funded through public-private partnership; and 10.2%, or up to US$2.5 billion for 20 projects, are expected to be funded through the state budget. The projects envisaged compass 48 infrastructure projects, including (i) 11 railroad projects, with four ongoing and seven planned, (ii) seven airport projects, with one ongoing and six planned; (iii) nine border and port projects, with three ongoing and six planned, (iv) road projects, with six ongoing and ten planned, and (v) five other infrastructure and border ports projects, all of which have been completed. The New Revival Policy also includes legislative reforms, including adoption of the Public-Private Partnership Law, the revised Investment Law, the revised Land Law and the revised Minerals Law. For more details, see "*The Mongolian Economy—Economic Policy Objectives*".

"One Billion Trees" National Movement

On October 4, 2021, Mongolian President Khurelsukh initiated the national One Billion Trees Movement, with goals including planting one billion trees by 2030. As part of the movement, the government of Mongolia aims to complete forestation and rehabilitation related works in approximately 12.9 hectares of area in Ulaanbaatar, and the planting of 120 million trees, including 4.5 million trees to be planted in 3,500 hectares of forested areas under varying degrees of protection, and 65 million trees in 3,750 hectares of green space. To support this movement, a fund was established to create a structure and system to provide sustainable financing for forestation, tree planting, and other environmental activities. In addition, the National Climate Committee was established in 2021 and it developed an action plan for implementation.

As of October 31, 2023, as part of the One Billion Trees Movement, a total of 41.5 million trees had been planted. Mongolia has sufficient seedlings and saplings to continue with the project.

ESG Initiatives From Green Finance Regional Forum

On March 29 and 30, 2022, at the initiative of Mongolian President Khurelsukh, the country held the first Green Finance Regional Forum, during which key green growth projects were discussed, and the National Roadmap for Sustainable Financing and related financing were approved. A fund was established to support the One Billion Trees Movement. Members of Parliament and the Cabinet and other corresponding officials, representatives of several diplomatic representatives' offices in Mongolia, representatives from international organizations, and investors attended the forum. Within the framework, the Government targets to create basic conditions and a favorable policy environment for the development of sustainable financing; orient the national budget and finance towards the green development; develop green banking and financial institutions by increasing the capital flow into green financing; improve the environmental, social, governance and climate risk management; and provide support to the transparent and open reporting of these green banking and financial institutions. Forum participants held discussions on accelerating regional cooperation in fighting climate change, desertification and soil degradation, developing sustainable and green financing, and implementing a policy on the "Green Development Revival," which is a component of Mongolia's New Revival Policy.

Along with Mongolia's existing programs such as Vision-2050, the New Revival Policy and Mongolia's collaboration with the United Nations in the development of an "Integrated National Financing Framework" based on the United

Nation's Sustainable Development Goals, the Green Finance Regional Forum is an organic and integral part of Mongolia's commitment to green and sustainable development.

New Debt Management Framework

In May 2022, Parliament approved the Government Debt Management Strategy 2023-2025, which outlines key measures for debt management, including:

- conducting regular surveys of foreign market conditions, costs, and risks, and implementing measures to selectively repurchase its outstanding foreign bonds that are trading below par;
- reducing repayment risk by setting criteria and conducting risk assessments of domestic borrowers of funds on-lent from the Government's foreign borrowings;
- investigating the possibility of issuing green, social or sustainability debt instruments to implement measures in line with the Sustainable Development Goals;
- using Government debt guarantees to support the creation of economically and socially viable, high-budget projects;
- improving oversight of government debt-guaranteed projects to reduce contingent liability risks; and
- improving government debt transparency.

Completion of Tavan Tolgoi–Gashuun Sukhait Railway Project

On September 9, 2022, the Tavan Tolgoi–Gashuun Sukhait railway, the second cross-border railway connecting Mongolia and China, commenced operations. The railway connects Tavan Tolgoi in southern Mongolia, an area rich in minerals, with Gashuun Sukhait–Gantsmod on the border with China, the main terminal for Mongolia's coal and copper exports. The railway is connected to the Ulaanbaatar–Tomor Zam railway network. It is a class 1 railway capable of transporting 30 to 50 million tons of cargo per annum to the border with China, with the potential to boost mining exports to Japan, South Korea and India through Chinese ports. The railway has reduced the cost of transporting coal within Mongolia. The railway is expected to create approximately 2,000 permanent jobs and be a significant contributor to local and national economy and improvement of quality of life in the relevant local communities. Since the commencement of operation of the new railway through November 15, 2023, approximately 1.9 million metric tons of copper and coal had been transported through this railway.

Completion of Zuunbayan–Khangi Railway Project

On November 25, 2022, the Zuunbayan–Khangi railway, the third cross-border railway connecting Mongolia and China, commenced operations. This railway connects the east-west Tavan Tolgoi–Zuunbayan railway, which began trial operations on March 15, 2022, with the Khangi–Mandal border crossing point. The Tavan Tolgoi–Zuunbayan railway was the first major railway constructed entirely with domestic resources and, when it officially commences operations, it is expected to be capable of transporting 15 million metric tons of cargo per annum at costs that are significantly lower than road transport. The Tavan Tolgoi–Zuunbayan railway commenced operation in November 2022. The Zuunbayan–Khangi railway supports a key industrial facility at Sainshand in the northwest of Zuunbayan. China is also constructing a new railway to connect with the border crossing point at Khangi, providing a through route for freight traffic to China's Inner Mongolia and beyond. Initial talks on this project have started. The railway is expected to increase Mongolia's import-export freight capacity by 20 million metric tons. It is also expected to boost the export of coal, copper and iron ore from Mongolia's mineral-rich southern region by reducing by half the transport distance for freight. The Zuunbayan–Khangi railway, coupled with the Tavan Tolgoi–Gashuun Sukhait railway, is expected to increase Mongolia's rail freight traffic by 65%. Since the commencement of the new railway's operation and through November 15, 2023, a total of approximately 2.2 million metric tons of copper and coal had been transported through this railway.

Construction of Power of Siberia II Gas Pipeline Project

On February 28, 2022, Mongolian Deputy Prime Minister Sainbuyan Amarsaikhan and Russian state-owned energy corporation Gazprom signed an agreement to launch design development and engineering exploration works for the construction of the Soyuz Vostok gas pipeline in Mongolia, which will be a continuation of Power of Siberia II, a Russian-Chinese natural gas pipeline that will cross through Mongolia. The Power of Siberia II gas pipeline is planned to start in western Russia and terminate in China while passing through Mongolia. The 2,600-kilometer gas pipeline, with a length of over 900 kilometers passing through 6 aimags and 23 soums of Mongolia, has a planned capacity of 50 billion cubic meters per annum, and, upon completion, it is expected to feed directly into China's gas pipeline network. Construction on the pipeline is scheduled to begin in 2024, and it is expected to commence operation in 2030. In April 2022, representatives from Gazprom met with local Mongolian authorities in the relevant regions to be used for the pipeline. Also in 2022, the Government and Gazprom established a joint working group for a 2022-2024 action plan, which is currently being carried out. According to the plan, the project design and engineering studies of the natural gas supply pipeline is expected to be completed within 2023. The Power of Siberia II pipeline is expected to benefit Mongolia, through transit and related fees, and a small regional market for some of the gas transit by the pipeline will be created, helping to alleviate Ulaanbaatar's current winter pollution, with is largely a result of coal use.

Discrepancies in Mongolia's Coal Exports to China

Coal exports are a major contributor to Mongolia's foreign exchange reserves. In line with the Government's goal of increasing the country's foreign exchange reserves, the Government initiated an investigation into the coal exports by Erdenes Tavan Tolgoi JSC, the Mongolian state-owned enterprise that holds the mining licenses for Mongolia's largest coal deposit, the Tavan Tolgoi coal deposit, which produces and exports the substantial majority of Mongolia's coal exports to China. In October 2022, discrepancies were discovered when comparing Mongolia's statistics for coal exports to China, and the associated export revenue, with Chinese customs' corresponding import data. The exact amount of the discrepancy and its value is currently under investigation. On October 26, 2022, Mongolia's Cabinet resolved to conduct a six-month investigation into Erdenes Tavan Tolgoi JSC, and the State Secretary of the Ministry of Finance was appointed as the authorized special representative. Starting from December 4, 2022, peaceful civil demonstrations took place in Ulaanbaatar demanding accountability and that the Government take decisive and swift actions to resolve the allegations of coal theft. The demonstrations remained largely peaceful and focused primarily on the incident itself rather than broader political issues. With the permission of the Mongolian Prosecutor General's Office, On December 12, 2022, an extraordinary meeting of the Cabinet was organized, in which it was agreed to appoint an international auditor to look into the activities of Erdenes Tavan Tolgoi JSC and a establish a working group to disclose the results of the investigation on Erdenes Tavan Tolgoi JSC. On December 13, 2022, the Independent Authority Against Corruption ("IAAC") announced the arrest of 17 individuals in relation to the alleged coal theft, including two former ministers, seven members of Parliament, and several former directors of Erdenes Tavan Tolgoi JSC. On December 21, 2022, a public hearing with the relevant Government authorities was held to review Mongolia's coal exports and related transportation issues and other relevant reports and information. These investigations are still ongoing as of the date of this Offering Memorandum. Meanwhile, all contracts related to Erdenes Tavan Tolgoi JSC were made public, and the Government plans to accelerate the public listing of Erdenes Tavan Tolgoi JSC and improve its governance structure to address the problems of transparency in the mining sector and corruption. In a further step to enhance transparency, since July 1, 2023, mining products can be traded through the Mongolian Stock Exchange following the effectiveness of Mining Products Exchange Law. See "*Risk Factors—Risks Relating to Mongolia—Mongolia has experienced and may again experience political and social instability*" for more details.

Debt Management and Liquidity of the Development Bank of Mongolia ("DBM")

In 2022 and 2023, revelations around large loan losses at DBM highlighted weak governance and oversight for the bank. At the start of 2022, DBM disclosed that around MNT1.9 trillion, or 57% of its loan portfolio were either under legal proceedings or experiencing difficulties in recovery. DBM suspended issuing new loans to focus on loan recovery and repayment of maturities, which caused its non-performing loan ("**NPL**") ratio to increase, from 46.2% in the end of 2021 to 57.1% as of June 30, 2023. DBM expects its NPL ratio to decrease by the end of 2023, as it makes additional loan recoveries. However, there is still considerable uncertainty regarding DBM's ability to achieve its goals in this area. See "*Monetary and Financial System—Financial System—Development Bank of Mongolia (DBM)*."

In the first half of 2023, the Government established a temporary review committee to look into DBM's operations. The review process is ongoing as of the date of this Offering Memorandum.

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$350,000,000 7.875% Bonds due 2029 (the "Bonds"). The Bonds are being issued under an Indenture dated October 7, 2020 (the "Indenture").
Issue Price..	99.017% of the principal amount of the Bonds.
Maturity..	June 5, 2029.
Interest..	The Bonds will bear interest from and including December 5, 2023 at a rate of 7.875% per annum. Interest will be paid on June 5 and December 5 of each year, commencing on June 5, 2024.
Additional Amounts	The Issuer will make all payments on the Bonds without withholding or deducting any present or future Taxes (as defined herein), imposed or levied by or on behalf of any Tax Jurisdiction (as defined herein) unless required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the holders, subject to certain exceptions, such Additional Amounts (as defined herein) as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction. The Issuer will not, however, pay any such Additional Amounts if the holder or beneficial owner is liable for Taxes imposed by any Tax Jurisdiction under certain circumstances. See "*Description of the Bonds—Additional Amounts*."
Concurrent Transactions............................	Pursuant to a tender offer memorandum dated the date hereof, and subject to the terms and conditions as described therein, the Issuer is conducting a separate concurrent tender offer (the "Tender Offer") in relation to the Issuer's US$ 8.75% Bonds due 2024 (the "2024 Bonds"). Any 2024 Bonds repurchased in connection with the Tender Offer will be cancelled. The Tender Offer is not part of the Offering and is conducted pursuant to a separate tender offer memorandum. See also "*Use of Proceeds*" and "*Plan of Distribution*."
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 less than a de minimis amount of original issue discount, 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 "*Description of the Bonds—Further Issues.*"

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 "*Description of the Bonds—Global Bonds.*"

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 *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. 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 "*Description of the Bonds—General.*"

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— Exceptions.*"

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 any and all 2024 Bonds pursuant to the terms of the Tender Offer and to pay costs and expenses related to the Tender Offer. To the extent there are additional proceeds after the application described above, the Issuer intends to repay the 2024 Bonds upon maturity and, to the extent there are additional proceeds, utilize them for any further debt management activities. See *"—Concurrent Transactions*" and "*Plan of Distribution*."
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 66⅔% 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 "*Description of the Bonds—Meeting, Amendments and Waivers—Collective Action*."
Governing Law	New York; *provided*, *however*, 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 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 and the rules of the SGX-ST so require.
Taxation	See "*Taxation*" 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.
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

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 82.7%, 87.2%, 84.3% and 91.3% of Mongolia's total exports in 2020, 2021 and 2022 and the nine months ended September 30, 2023, respectively. Mining products such as coal, copper and other metals represent the majority 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 Chinese demand for its exports would adversely affect Mongolia's GDP and overall economy. For example, the growth of the Chinese economy has slowed in recent years and trade volume between the two countries was reduced in 2019 and 2020. In particular, as a result of the outbreak of COVID-19, between 2020 and the first half of 2022, Mongolian exports to China were suppressed, as trade was essentially suspended for prolonged periods of time and China's economy slowed, lowering demand for raw materials and commodities. Furthermore, China's pursuit of its zero-COVID policy also substantially limited Mongolia's ability to export its products to China. The total quantity of exports from Mongolia to China decreased from US$6.8 billion in 2019 to US$5.5 billion in 2020, although it recovered to US$7.6 billion in 2021 and US$10.6 billion in 2022. See also *"The Mongolian Economy—Economic History—Commodity Prices and Mining Dependency."* There is no assurance that China's economy will not experience future slowdowns, which could adversely impact China's demand for exports from Mongolia. 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 2022 and the first nine months of 2023, Mongolia recorded a current account deficit of US$2,303.5 million and a current account surplus of US$467.7 million, respectively, primarily due to the increase in export and lifted COVID-19 border restrictions. 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, the value of the Bonds may be adversely affected.

Mongolian companies, including state-owned entities, have dealings with entities subject to international 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 signed nine bilateral facility agreements with VneshEconomBank and obtained a total of US$30 million and €46.5 million in financing between 2015 and 2019 to facilitate an upgrade to the combined heat and power ("CHP") 4 power plant in Ulaanbaatar and fund the purchase of agricultural equipment from Russia. As of October 31, 2023, the total outstanding amount of these loans was US$6.7 million and €37.2 million, respectively. Payments under these loans have been suspended as a result of the imposition of U.S. and EU sanctions. 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 VneshEconomBank and VTB Bank are Russian state-owned entities on the Sectoral Sanctions Identification List and Specially Designated Nationals List of the U.S. Department of Treasury's Office of Foreign Asset Controls. Mongolia imports substantially all of its petroleum products from Russia, and as part of those imports Mongolian companies, including state-owned Ulaanbaatar Railway JSC, purchase petroleum products from the Russian state-owned Rosneft Oil Company, which is also on the Sectoral Sanctions

Identification List. Mongolia also imports grains and fertilizer from Russia. The U.S., the EU, and the UK each implemented sectoral sanctions in 2014 in reaction to Russia's actions in Ukraine. Following Russia's invasion of additional Ukrainian territories in February of 2022, a number of countries, including the U.S., the UK and the EU and various EU states, expanded sanctions applicable to Russia, Russian entities—in particular financial institutions—and their enforcement of these sanctions.

The imposition of sanctions and Russia's withholding of its oil and gas—either at Russia's own initiative to make these strategic resources its economic weapon or as a result of Russia's inability to settle payments for its oil and gas through SWIFT—have had a material and adverse effect on the economic markets in general, and could adversely impact Mongolia's economy and its current and future trade with Russia. For example, as a result of measures taken by major Western banks in response to the sanctions against Russia, Mongolia's payments to Russia for energy were temporarily delayed. The Government has worked closely with its Western partners to resolve issues with any correspondent banks in Russia and is now relying on a combination of general and specific licenses to make these payments. The Government expects to continue to work with its Western partners to ensure payments for Russia's exported goods without violating relevant sanctions. However, as the development of the Russia-Ukraine war and related economic sanctions against Russia is highly unpredictable and beyond the Government's control, there is no assurance that the Government will not encounter further difficulties in relation to trade payments or that the current arrangement will continue to permit necessary payments. Western sanctions directed at Russia could change at any time, and the licenses that Mongolia relies on may no longer be available. Any uncertainties in Mongolia's settlement of payments with Russian counterparties may lead to material disruption of the supply of strategic resources, including energy and food, imported from Russia, which could in turn materially and adversely affect Mongolia's economic stability and growth.

Moreover, the imposition of sanctions and Russia's withholding of its products have led and may continue to result in supply-side inflation in Mongolia. Following the Russia-Ukraine war and the associated international sanctions imposed on Russia, energy and food prices in Mongolia rose and Mongolia's inflation rate was 13.2% and 10.1% for 2022 and the nine months ended September 30, 2023, respectively. Any prolonged period of persistently high inflation could lead to an increase in the costs of living for Mongolia's households and the transportation and production costs for Mongolia's business entities, which in turn could materially and adversely affect the Mongolian economy and Mongolia's social and economic stability. See *"—Mongolia may be subject to periods of high inflation, which could have a material adverse effect on Mongolia's economy."*

The Government will 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. 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 the value of the Bonds.

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

Historically, Mongolia has experienced periods of slow growth or economic contractions and depreciations 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 4.6%. It further recorded four successive quarters of economic contraction between second quarter of 2021 and first quarter of 2022. Although the Mongolian economy has started to show signs of recovery, its GDP growth was relatively low at 1.6% in 2021, 5.0% in 2022 and 6.9% for the nine months ended September 30, 2023. China's Zero COVID-19 policy continued to affect Mongolia's ability to export to China in 2022, and as a result the mining and quarrying sector contracted by 11.9% in 2022, which adversely affected the economic growth during the same period. Historically, certain policies implemented by the Government from time to time and other factors have caused fiscal imbalances or current account deficits. Factors outside of the Government's control, such as the collapse of copper prices in 2008 and 2015, the outbreak of COVID-19 in 2019, the ongoing Russia-Ukraine war, the Israel-Hamas war, periods of continued weak commodity prices, or a slowdown in China's economic growth, may materially and adversely affect the economy and operating environment in Mongolia.

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. As of September 30, 2023, the amount of nominal outstanding foreign currency denominated bonds was US$2.6 billion, which accounted for 29.6% of total outstanding government external debt. In addition to its direct obligations, as of September 30, 2023, the Mongolian Government had two remaining Government-guaranteed debt obligations of US$214.9 million, which accounted for 2.4% of the total outstanding external government debt. See "*Public Sector Debt*."

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 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, expenditures for exports and sharp declines in foreign direct investment. Mongolia recorded current account deficits of US$674.6 million, US$2,108.4 million, US$2,303.5 million and a surplus of US$467.7 million in 2020, 2021, 2022 and the first nine months of 2023, respectively. Foreign exchange liquidity has also been under pressure from time to time, including due to import growth (including to fund equipment imports for mining and mineral processing operations) and sharp declines in inward financial flows and commodity export proceeds. Mongolia's foreign exchange reserves were US$4,534.2 million, US$4,366.1 million, US$3,399.6 million and US$4,124.4 million, as of December 31, 2020, 2021 and 2022 and September 30, 2023, respectively.

Mongolia has significant amounts of outstanding foreign currency-denominated bonds and Government-guaranteed indebtedness. As of the date of this Offering Memorandum, the Government has provided guarantees in the amounts of ¥30 billion and US$9.1 million, for outstanding borrowings of DBM and other eligible entities, respectively. 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, including the Bonds, would be materially and adversely affected.

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. Starting from March 2022, the depreciation of the Tugrik against the U.S. dollar further accelerated, primarily due to higher imports related to infrastructure and construction projects and the increasing demand for consumer durables and services financed by savings accumulated during the COVID-19 pandemic, which in turn led to an outflow of dollars.

Mongolia depends on China, which is Mongolia's largest trading partner, for certain aspects of financial stability. This includes long-term currency swaps between China's central bank, the People's Bank of China, and the Bank of Mongolia through which Tugrik and Renminbi are exchanged. The first swap arrangement between the two countries was established in 2011 with the objective of promoting bilateral trade 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 . The agreement was extended in June 2017, August 2020, November 2022 and August 2023, each time for an additional three years.

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

In light of the recent and past depreciation of the Tugrik against the U.S. dollar, the Bank of Mongolia has taken measures, including the implementation of a flexible exchange rate regime that limited intervention and facilitated the opportunistic building of reserves. The Monetary Policy Committee cut the policy rate from 11.0% at the beginning of 2020 to 6.0% in November 2020 in response to the COVID-19 pandemic, and the rate remained at 6.0% until the beginning of 2022. However, to curb rising inflation and address other economic and financial risks, the policy rate was raised to 13.0% in December 2022, and has remained at 13.0% through the Monetary Policy Committee's most recent meeting in September 2023. Mongolia's total foreign exchange reserves decreased from US$4,534.2 million as of December 31, 2020 to US$4,366.1 million as of December 31, 2021 and US$3,399.6 million as of December 31, 2022. Total foreign exchange reserves increased to US$3,977.4 million as of October 31, 2023. The historical deterioration was primarily driven by higher global prices for imported food and fuel, high levels of equipment imports, and a contraction in exports due to Chinese border restrictions. In particular, imports continued to grow in relation to the infrastructure and construction projects and the release of demand for consumer durables and services financed by savings accumulated during the COVID-19 pandemic. In addition, a large share of Mongolia's export revenue from Erdenes Tavan Tolgoi was used to finance large-scale investment projects by Chinese construction companies in Mongolia, thereby restricting foreign exchange inflows and boosting import growth. These factors, together with capital outflows, increasing deposit dollarization and tighter global financial conditions, exacerbated exchange rate pressures and led to the historical decline in Mongolia's foreign exchange reserves. The recent increase in foreign exchange reserves was mainly driven by an increase in coal export volume following the removal of China's pandemic border controls. In response to the worsening foreign currency situation, banks in Mongolia have imposed measures restricting conversions of Tugriks into foreign currencies, including by setting daily limits on the amount that can be converted into foreign currencies. With the improvement of external and domestic economic conditions, the relevant banks subsequently removed these restrictions. However, there is no assurance that the banks will not impose additional and more stringent foreign exchange measures, which could prevent individuals and businesses from obtaining sufficient foreign currency to satisfy their foreign currency demands. 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. The inadequate enforcement of the Currency Settlement Law as well as repatriation requirement of state-owned enterprises led to historical declines in Mongolia's foreign exchange reserves. Furthermore, like other emerging market governments, Mongolia may face higher financing costs due to higher global interest rates, which may adversely affect Mongolia's foreign exchange reserves and could affect Mongolia's ability to refinance its external debts. As a result, the Mongolian economy may be adversely affected and the market's confidence in the Mongolian economy may decrease. The Issuer cannot assure you that its reserves will not further decline significantly, which could result in reduced liquidity and higher interest rates in the Mongolian economy. Reduced liquidity, increasingly stringent foreign exchange control measures or an increase in interest rates in the Mongolian economy following a decline in foreign exchange reserves could adversely affect the value of the Bonds and the Government's ability to repay or refinance its foreign currency-denominated obligations.

Mongolia may be subject to periods of high inflation, which could have a material adverse effect on Mongolia's economy

Mongolia depends on imported goods from foreign countries. Mongolia recently experienced periods of high inflation, especially for food, refined petroleum and electricity, primarily as a result of supply-side and global factors, including high international prices, stagnancy in domestic production, and supply disruption related to China's border restrictions in response to the COVID-19 pandemic and sanctions against Russia related to the Russia-Ukraine conflict. Mongolia's inflation has been exacerbated by currency devaluation, as this had significantly increased the prices for imported goods, which are primarily priced in foreign currencies, including the U.S. dollar. In 2020, 2021, 2022 and the nine months ended September 30, 2023, Mongolia's inflation rate was 2.3%, 13.8%, 13.2% and 10.1%, respectively.

The Bank of Mongolia has implemented a number of measures to try to contain inflationary pressures. Between December 2021 and September 2022, the Monetary Policy Committee (the "MPC") of the Bank of Mongolia raised the policy rate by an aggregate of 6.0 percentage points, with the policy rate reaching 13.0% in December 2022 where it remained since. The MPC also adopts additional measures with the objective to stabilize inflation in the medium term, including widening the policy rate corridor to the pre-COVID-19 level, which is ± 2.0 percentage points, and excluding certain bank liabilities newly funded on international markets from reservable liabilities.

However, there can be no assurance that measures taken by the Bank of Mongolia and the Government will be successful in meeting the Bank of Mongolia's inflation target or that inflation will not otherwise increase further in the future. In particular, the inflation may continue for prolonged periods if China's economic slowdown affect trade, if the Russia-Ukraine continues, or if energy prices continue to rise. Increased prices of energy and commodites have disproportionally affected low-income families and local farmers and herders, who have to cut back on other necessities and incur additional debts. Similarly, small and medium enterprises that suffered from the COVID-19 pandemic were further impacted by consequences that resulted from the Russia-Ukraine conflict. In addition, increases in the policy rate have also increased the domestic borrowing costs and may result in lower levels of lending and decreased economic growth. High and persistent inflation may materially and adversely affect Mongolia's economic growth and stability, thereby negatively impacting investor confidence and adversely affecting the price of the Bonds.

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

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. On July 21, 2022, S&P affirmed Mongolia's long-term sovereign credit rating at B with a stable outlook, citing Mongolia's sound economic growth prospects and ongoing improvements to its fiscal metrics and decreased external debt risk. On July 13, 2022, 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, with outlook remaining stable. On May 18, 2022, 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 and the border disruptions between Mongolia and China associated with COVID-19 pandemic will ease in 2023. On May 15, 2023, 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 due to the recovery of the mining sector, as well as the stabilization of external debt financing following the successful debt refinancing in early 2023. 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.

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. These types of 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. For example, in December 2022, large-scale political demonstrations were held in Ulaanbaatar in response to allegations of coal theft and corruption in the coal industry, which involved several former leaders and members of Parliament. On December 13, 2022, the IAAC announced the arrest of 17 individuals in relation to the alleged coal theft, including two of former ministers, seven members of Parliament, and several former directors of Erdenes Tavan Tolgoi JSC. For more details, see "*Summary—Recent Development—Discrepancies in Mongolia's Coal Exports to China*." 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 the value of the Bonds.

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 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.*" In particular, following the large-scale political demonstration that broke out in Ulaanbaatar in response to the corruption in the coal industry, the Government initiated investigations and the IAAC subsequently announced the arrest of several current and former officials in relation to the alleged coal theft, including two former ministers, and seven members of Parliaments. The investigation is still ongoing as of the date of this Offering Memorandum. Any actual or alleged acts of corruption and bribery by Government officials could materially and adversely affect the Government, the Mongolian economy, Mongolia's attractiveness to foreign investors, the political environment and stability, negatively impact investor confidence and adversely affect the value of 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 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 addition, the Investment Law requires investors with foreign (direct or indirect) state ownership of 50.0% or more to obtain approval from the Ministry of Economy and Development 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. In June 2022, the updated estimate of total investment increased to US$7.1 billion, which was US$1.8 billion more than the original estimate. In January 2022, Rio Tinto and the Mongolian Government reached an agreement, on the commencement of underground operations at the Oyu Tolgoi copper mine, with production expected in the first half of 2023. Approximately US$5.9 billion has been invested in the underground mining development as of September 30, 2023. Although the Government has a significant role in major mining projects such as Oyu Tolgoi, legislative changes in 2015 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 23.3% and 13.0%, respectively, of Mongolia's GDP for 2020, 24.7% and 13.2%, respectively, of Mongolia's GDP for 2021, 23.0% and 13.0%, respectively, of Mongolia's GDP for 2022, and 26.9% and 11.2%, respectively, of Mongolia's GDP for the nine months ended September 30, 2023. 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 industrial 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.

As the market conditions and the future operations of Mongolia's mining and export operations remain uncertain, prices and production may fluctuate in the future. To the extent that the Mongolian economy is affected by such price fluctuations, this may adversely affect the value of the Bonds.

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, was first reported to have been transmitted to humans in late 2019 and has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. More infectious variants and subvariants, including the omicron variant, have continuously emerged, leading to resurgences of cases and prolonged imposition of restrictive measures by governments around the world. Mongolia declared a state of emergency in response to the outbreak on January 17, 2020. COVID-19 significantly affected the Mongolian economy in 2021, 2022 and the nine months ended September 30, 2023, and the continued severity and duration of COVID-19's impact on the global economy, as well as on Mongolia's economy, remains difficult to predict.

Measures taken by the Government to combat the spread of COVID-19, such as suspensions of air travel, limited operation hours for all types of restaurants and closures of schools, adversely affected various sectors of the economy. While Mongolia's COVID-19 situation has improved, corresponding improvement in Mongolia's economic performance did not catch up immediately, primarily because Mongolia depends substantially on the export sector for economic growth, in particular exports to China. In early 2020, as part of its "Zero COVID" policy, China imposed a strict lockdown, which led to decreased demand for coal imports and physical closures of border crossings between Mongolia and China for extended periods. Recently, local governments across China have lifted the restrictive measures under the country's "Zero COVID-19 policy," and the border crossings between Mongolia and China have normalized. Although China's rollback of its strict anti-COVID-19 measures is expected to boost its domestic economic growth and promote trades between Mongolia and China, 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. In particular, as China rapidly adjusted its pandemic controls, the number of COVID-19 cases in the country escalated rapidly. Although it is difficult to trace the impact through China's official statistics, the impact on China's economy may be significant, which could affect Mongolia's economy. Furthermore, higher case level in China or other regions could result in new variants of the disease, which could again result in higher case numbers and further stress nations' vaccine and other mitigation strategies, which could again affect economies globally. For more information regarding the impact of COVID-19 on Mongolia and its economic performance, see "*Summary—Recent Developments—Worldwide Economic and Financial Difficulties*."

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. The liquidity position of Mongolia's banks also deteriorated since mid-2021 due to deposit drawdowns. The low and declining capitalization rate of Mongolia's banks could undermine public confidence in, and disrupt the proper functioning of, the country's banking sector. The five D-SIBs had completed their listings as of June 30, 2023. While the public listings have provided capital to these banks to improve financial soundness, there is no assurance that the banks will be successful as listed companies. Moreover, as the amount of capital raised from the initial public offerings of the five D-SIBs was moderate, the concerns over the low capitalization rate may not be adequately addressed by these transactions. 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 the value of 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 the value of 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 armed conflicts, the recent 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.

Geopolitical tensions, the Russia-Ukraine war and other conflicts in various countries and regions, including the Israel-Hamas war, may lead to rising oil prices, inflation, and commodity price volatilities. In an example of geopolitical issues potentially affecting Mongolia, Mongolia's imports of petroleum products from Russia were temporarily suspended for 15 days beginning September 21, 2023 as Russia imposed a ban on the export of petroleum products. For more information regarding the impact of global events and geopolitical tensions and conflicts on Mongolia, see "*Summary—Recent Developments—Worldwide Economic and Financial Difficulties.*" Furthermore, the ongoing conflict between Russia and Ukraine has also had economic ramifications, including higher global prices, in particular for energy and some foodstuffs. See "*Summary—Recent Developments—Russia-Ukraine War*."

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, including in reaction to the ongoing Israel-Hamas war, 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 a very substantial majority of Mongolia's total trade, while trade with Russia typically accounts for 10% to 15%. 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

Mongolia's agricultural sector comprised approximately 13.0% of nominal GDP in 2020, 13.2% in 2021, 13.0% in 2022 and 11.2% for the nine months ended September 30, 2023. 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. The ongoing desertification in Mongolia may lead to crop failure and reduced yields. The loss of vegetation cover may also lead to reduced food for livestock. 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. See also "*Enforceability of Foreign Judgments in Mongolia.*"

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 is not obliged to, list or apply for the trading of the 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. If a market for the Bonds 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 a 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 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 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.

USE OF PROCEEDS

The Issuer estimates that the net proceeds from the sale of the Bonds will be approximately US$344,607,127 after deducting underwriting commissions and estimated expenses related to the Offering. The Issuer intends to use the net proceeds of the Offering to repurchase any and all 2024 Bonds pursuant to the terms of the Tender Offer and to pay costs and expenses related to the Tender Offer. To the extent there are additional proceeds after the application described above, the Issuer intends to repay the 2024 Bonds upon maturity and, to the extent there are additional proceeds, utilize them for any further debt management activities.

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 2012 through 2022, Mongolia experienced average real GDP growth of 5.2% 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 with an estimated 37 million tons of copper and 1,431 tons of gold resources, commenced full operations after the completion of the construction of an underground mining expansion in March 2023. Approximately US$5.9 billion was invested in the underground mining development from 2016 to 2022. 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 war between Russia and Ukraine and its broader implications, including economic uncertainty, the effects on global commodity markets, particularly food and energy markets, and measures various countries have taken against Russia, which have complicated doing business with Russia, which is one of Mongolia's major trading partners;
- global inflationary trends and central bank policy responses, including interest rate rises, and their effects, including significant exchange rate effects;
- a deterioration in economic and trade relations between the United States and China;
- geopolitical tensions and conflicts in various countries and regions, in particular the Israel-Hamas war, Taiwan/China tensions, and their ramifications for the social and economic instability in adjacent regions, in particular in the Middle East, Europe and East Asia, respectively;
- the slowdown of economic growth in China, as compared with its previous extended period of very high growth;
- the COVID-19 pandemic caused by new strains of coronavirus, including its variants and subvariants, as further described below; and
- fluctuations in coal, copper, nickel and other commodity prices.

In response to the COVID-19 pandemic and to mitigate the adverse effects on the economy, the Government adopted a four-year MNT10.0 trillion plan, under which the Government would make concessional loans to targeted groups. As of December 31, 2022, a total of MNT5.9 trillion of concessional loans under this plan had been disbursed to targeted groups, and the Government estimated that a total of 109.8 thousand jobs were protected by these disbursements. Mongolia received over US$1,005.4 million in funding from the IMF, the World Bank, the ADB, the AIIB, EU and other international lenders to finance a significant portion of its response to COVID-19. In particular, on September 30, 2022, the Government obtained a US$100 million policy-based loan from the ADB, which contributed directly to the Government's state budget to increase Mongolia's foreign reserves. In addition, the AIIB agreed to offer a US$100 million loan from its crisis recovery facility, and the loan was ratified by Parliament on January 6, 2023. The loan was disbursed in April 2023. In addition, in October 2023, the ADB approved a US$100 million policy-based loan for the "Strengthening Fiscal, Financial, and Economic Resilience Subprogram 1," to support reforms in tax revenue mobilization, debt management, banking sector stability, and the role of the private sector in economic development. The loan was disbursed in November 2023. The Government and the ADB are in discussion for another US$100 million policy-based loan for climate change support.

As part of the comprehensive economic recovery plan, a total of MNT6.9 trillion in subsidized loans were planned for 2021-2022, and the Government estimated that an average of MNT70-80 billion in interest support will be provided in 2021-2024. This will provide financial support to enterprises, citizens, and herdsmen who took loans with interest and ensure normal business operations. As of December 31, 2022, a total of 71,339 borrowers have received MNT5.7 trillion funds in job support, repo financing, mortgages, and agricultural loans.

Mongolia implemented vaccinations as part of its COVID-19 control measures with significant success, and, accordingly, the Government eased certain of its other control measures such as, border control and travel restrictions. In January 2023, in order to attract foreign tourists and as part of its easing of travel conditions, the Government temporarily exempted nationals from 34 foreign countries from visa requirements to visit Mongolia for up to 30 days. The exemption will last for three years and includes 32 developed European countries, Australia, and New Zealand, which lead the number of tourists visiting Mongolia. The Government also updated its visa issuance procedures, creating a legal framework for issuing 72-hour visas to cross-border tourists.

Mongolia's economic outlook remains highly uncertain as a result of, among others, (i) adverse conditions in the Mongolian and global economies and financial markets, including due to the ongoing war between Russia and Ukraine, including budgetary impacts as governments address the resulting higher food and energy prices and central banks raise policy rates to address ongoing global inflation, (ii) factors such as fluctuations in coal, copper and other commodity prices and interest and exchange rates, higher unemployment, and lower consumer confidence, and (iii) the fiscal and monetary policies implemented by the Government and regulatory authorities to alleviate the effects of the COVID-19 pandemic by increasing liquidity and supporting incomes. See "*Risk Factors—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*." and *"—Uncertainties and instability in global market conditions could adversely affect Mongolia's economy*."

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, Toghan-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 17th 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 17th 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 2022 was approximately 3.46 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 3.46 million (2022), with those aged under 40 accounting for 69.3%
Population growth rate	1.9% (2013-2022)
Average life expectancy	71.3 years (2022)
Ethnic groups.........................	Mongols (94.9%), Kazakh (5.0%), others (including Turks, Chinese and Russians) (0.1%)
Temples and churches by religion	Christianity (58.1%), Buddhism (33.8%), Islam (6.1%), other (2.0%)
Literacy rate...........................	99% of the population aged 15 and above (2020)

Government:

Government type	Parliamentary
Capital	Ulaanbaatar
Head of State	President (elected by a universal popular vote for one term of six years)
Executive branch	Prime Minister and Cabinet
Legislative branch	State Great Khural (unicameral, 76 seats (current), 126 seats (effective from the next parliamentary election in June 2024); 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 for presentation to Parliament and appointed by the President)
State structure	Unitary state; territory of Mongolia is divided administratively into 21 aimags (provinces) and the capital city

Macroeconomic Data	As of and for the year ended December 31,					As of and for the nine months ended September 30,	
	2018	2019	2020	2021	2022	2022	2023(1)(2)
Nominal GDP (MNT billions) ...	32,582.6	37,839.2	37,453.3	43,555.5	53,851.5	35,908.8	46,502.2
Nominal GDP (US$ millions)(3)	13,178.0	14,206.6	13,312.9	15,286.4	17,146.3	11,760.3	13,382.3
Real GDP (MNT billions)(4)	26,446.7	27,928.3	26,655.4	27,091.7	28,455.1	20,286.9	21,695.0
Real GDP (US$ millions(3))(4)	10,696.3	10,485.6	9,474.8	9,508.2	9,060.1	6,644.0	6,243.4
Real GDP growth	7.7	5.6	(4.6)	1.6	5.0	3.8	6.9
Nominal GDP per capita (MNT thousands)(5)	10,314.1	11,855.6	11,612.9	13,267.9	16,121.0	N/A	N/A
Nominal GDP per capita (US$(3))(5)	4,171.5	4,451.1	4,127.9	4,656.5	5,132.9	N/A	N/A
Year-on-year inflation	8.1	5.2	2.3	13.8	13.2	13.8	10.1
Exports (US$ millions(3))	7,011.8	7,619.6	7,576.3	9,241.1	12,538.6	8,924.2	11,296.2
Imports (US$ millions(3))	5,875.0	6,127.5	5,298.9	6,845.5	8,704.4	6,356.4	6,755.5
Balance of payments(US$ millions(3))	(141.6)	452.9	786.9	(221.6)	(727.2)	(1,358.9)	791.4
Unemployment rate (%)	7.8	10.0	7.0	8.1	6.7	5.4	5.2
Gross external debt (US$ millions(3))(6)	28,714.9	30,702.3	32,361.8	33,805.5	33,344.82	32,515.0	33,790.2(7)
Gross foreign exchange reserves (US$ millions(3)).	3,549.6	4,348.6	4,534.2	4,366.1	3,399.6	2,794.6	4,124.5
Gross foreign reserves import cover (months)............	7.6	9,1	10.7	7.7	4.6	3.5	5.3
Population (in thousands)	3,238.5	3,296.9	3,357.5	3,409.9	3,457.6	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 September 30, 2023 unless otherwise indicated.

(3) The following average exchange rates (representing the average of monthly exchange rates for any given year or period as published by the Bank of Mongolia) were applied: 2018 – MNT2,472.5 = US$1.00, 2019 – MNT2,663.5 = US$1.00, 2020 – MNT2,813.3 = US$1.00, 2021 – MNT2,849.3 = US$1.00, 2022 – MNT3,140.7 = US$1.00, September 30, 2023 – MNT3,474.9 = US$1.00.

(4) Real GDP calculated at 2015 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.

(7) Figures as of June 30, 2023.

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 (repealed in 2000 by the Constitutional Court), 2000, 2019, 2022 and 2023, respectively.

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

In 2023, the parliamentary election law and the Constitution were amended. Under these changes, the number of members of Parliament will increase from 76 to 126, to be selected through a mixed electoral system where 78 members will be elected by majority representation and 48 members will be elected by proportional representation. These amendments will become effective from January 1, 2024.

The 2023 amendments to the parliamentary election law also requires that a minimum of 30% of the candidates in the 2024 election and a minimum of 40% of the candidates in the 2028 election must come from each gender.

Following the 2019 amendments to the Constitution, the 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 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, and Deputy Prosecutor General (subject to Parliament's confirmation) and the heads of the Mongolian military in consultation with Parliament. 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 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 or within 30 days of the resignation of a Prime Minister; 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.

Based on the conclusion of the Constitutional Court, the President can be removed by a vote of two-thirds 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 Parliament assumes the position of the President until a newly elected President is inaugurated.

Following the 2019 amendments to the Constitution, 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. President Khurelsukh began 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. The Prime Minister is limited to serving a four-year term. The Prime Minister chooses the members of the Cabinet upon presentation to the President and Parliament. The Cabinet appoints and removes deputy ministers.

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 (i.e. the ministries) and direct the activities of local administrations.

On January 21, 2021, then-Prime Minister Khurelsukh submitted his resignation to Parliament. Following his resignation, on January 27, 2021, Parliament elected Oyun-Erdene Luvsannamsrai 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 Oyun-Erdene, which included eight new appointments and eight ministers carrying over from the previous administration.

In November 2021, two new ministries were established—the Ministry of Economy and Development and the Ministry of Digital Development and Communications.

Following the 2022 amendments to the Constitution, which removed prior restriction on holding dual positions within Cabinet and Parliament, there was restructuring of the Cabinet and ten new members of the Cabinet were appointed. As of October 31, 2023, 16 of the 22 members of the Cabinet were members of Parliament.

Legislative Branch

The Parliament of Mongolia is referred to as the State Great Khural, which is the highest organ of state power. The most recent parliamentary election was held on June 24, 2020.

Following the 2023 amendments to the Constitution, Parliament will consist of 126 members, elected through a mixed electoral system for four-year terms. 78 members of Parliament will be elected by majority representation, while the remaining 48 members will be be elected by proportional representation. These changes will be implemented in Mongolia's next parliamentary election, scheduled for June 2024.

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 recent regular local legislature elections took place on October 15, 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. In 2022 and 2023, additional elections, by-elections and re-elections for the local legislatures took place in certain areas to fill vacant seats and/or due to lack of quorum.

Judicial Branch

The judicial system consists of the Supreme Court, the Administrative Court of Appeals, a Constitutional Court, a Capital City Court (appellate level court), 21 aimag courts (appellate level courts), 57 inter-soum courts (court of first instance) and a soum court (court of first 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 instance 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 changed the organizational structure, composition, a-nd 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 on the basis of an open selection process.

The 2019 amendments to the Constitution also provided 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 of Mongolia 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 330 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 204 khoroos (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 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:

Political Parties	Number of Seats	Percentage of Total
MPP	59	77.6%
Democratic Party	10	13.2%
MPRP	1	1.3%
Right Person Electorate Coalition	1	1.3%
Independent	1	1.3%
Total	**72**(1)	**100.0%**

(1) There are four vacant seats in Parliament as of the date of this Offering Memorandum.

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 Civil Code.

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 2019 amendments to the Constitution included provisions related to the use of natural resources, the operation and mandate of Parliament, the formation and the dismissal of the Cabinet 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 amendments to the Constitution also seek to ensure stability and responsibility of the Government by specifying that members of the Cabinet are to be appointed and dismissed by the Prime Minister rather than Parliament.

The 2022 amendments to the Constitution removed Article 39.1 of the Constitution which permitted the Prime Minister and no more than four members of the Cabinet to concurrently hold positions as members of Parliament, following a ruling of the Constitutional Court on August 15, 2022, in which the court ruled that the 2019 amendments to the Constitution regarding the number of Parliament members who could serve on the Cabinet were unconstitutional.

The 2023 amendments to the Constitution revised Article 21.1 of the Constitution by stating that Parliament will have one chamber and 126 members. Parliamentary election will be conducted by a mixed electoral system. 78 members will be elected by majority representation and 48 members will be elected by proportional representation. The amendment will be effective from the 2024 parliamentary election.

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 scale. 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 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 which allowed small-scale miners to 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.

Parliament adopted the State Policy on the Minerals Sector on January 16, 2014, 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%. 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. 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.

In 2022, the Minerals Law was amended to require mining license holders to request the state administrative body in charge of assaying or the authorized legal entity to determine the assay and quality of any type of extracted precious metals and stones and register its quantity. These amendments also clarified the role of the soum governor, including in respect of the governors' role in monitoring small scale mining activities, reviewing detailed environmental impact assessment of exploration licenses and reporting to the public on mining related activities.

In 2023, the Minerals Law was amended to introduce a tender selection process for granting exploration licenses.

Law on Petroleum

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, 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 province using domestic crude oil and a pipeline to transport crude oil is to be constructed with the support of the Government.

On January 29, 2021, the Law on Petroleum was amended to grant contract areas for petroleum exploration and exploitation to a state-owned oil refinery plant on preferential terms. For more details on the refinery plant, see "*The Mongolian Economy—Economic History—Sourcing of Petroleum Products*." The law was further amended in April 2022 to clarify the role and responsibilities of local government institutions in respect of petroleum related activities.

Regulations Affecting Foreign Direct Investment

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 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. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the Ministry of Economy and Development 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).

Energy Laws

The Law on Energy was adopted on February 1, 2001, and the Law on Renewable Energy was adopted on January 11, 2007.

In line with the State Policy (now repealed) on Energy, Parliament 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 provided 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 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 the 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 organizations, 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 partially 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 amendments to the Budget Law were also made on November 10 and November 26, 2015 and September 9, 2016.

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. 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 became effective from January 1, 2022.

The Budget Law was amended six times in 2022. The most significant amendments relate to the requirements applicable to projects to be implemented with the state budget. These projects must be assessed against certain criteria for preliminary assessment for public financing, and the financing thereof them must comply with specified procedures.

The Budget Law was amended three times in 2023. The most significant amendments relate to the timeline for drafting, submitting and reporting budget-related documents by relevant state authorities. They also introduce additional requirements for drafting and implementing the budget and state investment programs such as ensuring the participation of the public and providing sanctions on public officials for breachs of certain requirements of the Budget Law.

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, 88.0% of GDP in 2016, 85.0% of GDP in 2017 and 84.0% of GDP in 2018, 75.0% of GDP in 2019, 70.0% of GDP in 2020, 2021 and 2022, 65.0% of GDP in 2023 and 60.0% of GDP from 2024.

"Government Debt" includes (a) debt instruments issued by the Government, 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 50.8% 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. The law was amended on April 14, 2017, so that Article 16 of the Fiscal Stability Law, which regulates the FSF will take effect from January 1, 2024. The FSF is currently regulated by the Law on Government Special Funds, and from January 1, 2024 will be regulated by the Fiscal Stability Law .

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. In addition to the amendments made on April 14, 2017, the law was amended on July 7, 2021 in respect of the budget deficit limit. Accordingly, the budget deficit limit shall not exceed 10.4% of GDP in 2017, 9.5% in 2018, 6.9% in 2019, 12.5% in 2020, 8.8% in 2021, 5.1% in 2022, 3.6% in 2023, 2.8% in 2024 and that it must be below 2.0% of GDP starting from 2025.

In 2023, the Fiscal Stability Law was amended so that the special budgetary requirement related to the budget deficit and the Government Debt Ceiling may be implemented in phases in 2024 and 2025, and to prohibit the lowering of the minimum requirements for these two special requirements or extending their terms.

Furthermore, effective from January 1, 2025, it will be prohibited to propose or adopt a draft annual budget and/or any amendments within three months of the adoption of the mid-term budget framework statement and/or any amendment, and it will be mandatary for members of Parliament to attend sessions that will discuss laws that will amend the special budgetary requirements.

The 2023 amendment to the Fiscal Stability Law also provides for the mandate, requirements applicable to members, selection and appointment process and the operational guidelines for the Budget Fiscal Stability Council. The Budget Fiscal Stability Council was established by Parliament and aims to provide assistance to the Budget Standing Committee of Parliament. It has a mandate to research and make recommendations to Parliament through the Budget Standing Committee of Parliament regarding the annual budget and mid-term budget framework with budget legislation and to develop macroeconomic indicators and forecasts for drafting budget statements.

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, 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.

The Debt Management Law was amended in 2023 to introduce additional requirements for implementing debt management principles and projects and activities that would be supported by Government debt. This included a new requirement that projects must demonstrate tangible economic benefits as proven by relevant calculations and studies.

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 Parliament. The law took effect on January 1, 2016.

To comply with the 2019 amendments to the Constitution, 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, Parliament, the Government, the ministries in charge of development matters and fiscal and budgetary matters, the National Statistical Office, the National Audit Office, the Bank of Mongolia, local governing authorities, the National Development Institute, universities and academic institutions, 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 24 different types of Government special funds.

Laws Relating to the Banking Sector

Central Bank Law

The Law on Central Bank (the "Central Bank Law") was enacted on September 3, 1996, and has been amended a number of times since then. The law 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.

The Bank of Mongolia's primary activities are now: (i) issuing and regulating the national currency; (ii) formulating and implementing monetary policy; (iii) acting as a fiscal agent for the Government; (iv) supervising the operation of banks and other entities specified in laws; (v) managing, coordinating and monitoring the national payment system and its activities; (vi) holding and managing foreign currency reserves of the state; (vii) protecting rights and legal interests of bank customers and deposit holders; and (ix) implementing macro prudential policies.

In 2018, the law was amended to ensure the Bank of Mongolia's independence from the Government and to bring the decision-making process of the Bank of Mongolia in line with international best practices. In particular, the 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. The Monetary Policy Committee consists of seven members: the Governor, the First Deputy Governor, the Deputy Governor and four non-staff members nominated by the Economic Standing Committee of Parliament and appointed by Parliament for term of six years. The composition and operational procedures of the Banking Supervision Committee are approved by the Governor.

There is also a Supervisory Board and Financial Stability Council. The Supervisory Board comprises of six members who are appointed by Parliament. The board is mandated to oversee the Bank of Mongolia's internal audit activities, the implementation of recommendations by the external auditor and status of investment package, reporting and disclosing the financial reports to Parliament and the public and the performance of the Bank of Mongolia's Council. The Financial Stability Council, which is responsible for discussions and coordination of members' activities on identifying, monitoring and mitigating systemic risks to ensure stability of the financial system of Mongolia. The Financial Stability Council consists of the Governor, the Chairperson of the Financial Regulatory Commission ("FRC"), the Minister of Finance and the executive director of Deposit Insurance Corporation.

Following the 2021 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 reserve requirements and prudential ratios for banks;
- providing loans to banks, using financial instruments;
- pursuing unified policy on interest rates;
- conducting open market operations; and
- setting limits on the balance of loans to be 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 permitted by the Bank of Mongolia. 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 to fill seasonal gaps between state budget revenues and expenditures. 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 with the Bank of Mongolia on matters that are not specified by law.

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 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 if 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 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—Development Bank of Mongolia (DBM).*"

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 2021 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 2024. 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 market and create competition to reduce costs of financing.

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

Amendments to the Banking Law

On January 29, 2021, 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.

On June 3, 2022, Parliament amended the Law on Procedures for Implementing the Law on Amendments to the Banking Law to delay the deadline for systemically important banks to become publicly listed companies from June 30, 2022 to June 30, 2023.

In 2023, the Banking Law was amended to clarify the powers of the Bank of Mongolia and the applicable procedures for granting (and/or refusal to grant) necessary permits to engage in banking-related activities by domestic and foreign banks.

Law on Investment Specialized Banks

On January 20, 2023, Parliament adopted the Law on Investment Specialized Banks. This new law permits foreign banks to engage in banking activities with limited scope. The permitted activities include funding major projects by credit, issuing bank guarantees for major projects, selling and buying securities and financial instruments for financing projects, issuing securities in the international and domestic securities markets, and engaging in the activities of underwriting, custodial services and professional investment advice.

Law on Tourism

In May 2023, a revised Law on Tourism was adopted by Parliament.The new law includes provisions to support tourism and establish a self-regulated professional tourism organization to improve the services of tour companies. Under the new law, tourists will be able to receive a 100% VAT reimbursement. Furthermore, central and local governments may designate tourist attraction areas for special purposes in order to protect the environment and improve the services in these areas. The new law also liberalized Mongolia's air transportation sector and significantly eased the visa entry requirements for many foreign tourists.

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, which was approved by Parliament on February 5, 2016, become effective on January 1, 2017 a sovereign wealth fund for the benefit of current and future generations was created and financed from a certain portion of the taxes imposed on the mining sector (the "Fund"). The Fund is managed by the Future

Heritage Corporation, a wholly state-owned entity, in line with an investment mandate approved by the Prime Minister and an investment strategy approved by the board of directors of the Future Heritage Corporation. Following the 2020 amendments to the Law on the Procedure for Implementation of the Law on the Future Heritage Fund, the Ministry of Finance can accumulate assets of the Future Heritage Fund within the scope of its functions of managing the unified account of the state treasury and implementing the consolidated cash management, taking into account the Government's external debt position, until 2025. Other than as described above, the Law on the Future Heritage Fund provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation and the Child Money Program, will be made from the Fund until 2030, and investments may only be made into portfolios outside of Mongolia. The most recent amendments to the Law on the Future Heritage Fund transferred the mandate for making the Fund's investments from the Ministry of Finance to the Prime Minister. Furthermore, in 2022, the Law on the Procedures for Implementing the Law on the Future Heritage Fund was amended to provide an exception for 2023 in respect of the requirement to transfer 65% of mineral royalty payments collected under the budget to the Fund. The requirement will continue to apply as normal from 2024.

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, Parliament 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, assets and income 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 2023, the CIL was amended to impose new restrictions on high-ranking government officials and their related persons. These new restrictions include a prohibition on being associated with business entities that are doing business with the Government and a restriction on their related persons holding executive positions within state or local government-owned entities.

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 Otgochuluu. Ch, a former member of the board of directors. On February 9, 2018, Munkhbat. N was found guilty of abuse of power by the Sukhbaatar District Court, and the case was then appealed in the Capital City Court of Criminal Appeals. On March 30, 2022, the Capital City Court of Criminal Appeals issued a decision returning the case to the court of first instance on the basis that the decision of that court did not conform to specific circumstances of the case and could not be considered legally justifiable. This decision was appealed to the Supreme Court. However, the Supreme Court refused to hear the case due to the absence of grounds to review the appellate court decision. In November 2023, the court of first instance found the defendants guilty.

In the wake of the alleged coal theft incident that led to large-scale political demonstration in December 2022, the IAAC commenced investigations that led to the arrest of 17 current and former officials in relation to the coal theft allegations, including two former ministers, seven members of Parliament, and several former directors of Erdenes Tavan Tolgoi JSC. A working group was established to facilitate and expedite various investigations that are still ongoing as of the date of this Offering Memorandum. Meanwhile, all contracts related to Erdenes Tavan Tolgoi JSC were made public, and the Government plans to accelerate the public listing of Erdenes Tavan Tolgoi JSC and improve its governance structure to address the problems of transparency in the mining sector and corruption.

On December 16, 2022, the Criminal Code and the Criminal Procedure Code were amended to increase imprisonment terms for certain corruption-related crimes, remove the possibility to impose monetary fines for certain corruption-related crimes, remove the possibility of granting pardons or expedited proceedings for corruption-related crimes, introduce a criminal sanction of a lifetime ban from public service, and suspend the statutes of limitation periods for the period when an official is in office. These amendments further stipulate that assets and income acquired through criminal activities will be confiscated and transferred to state revenue regardless of the expiration of any statute of limitation periods. Additionally, any individual serving as a member of a permanent or temporary joint decision-making committee, commission, or engaging in analogous roles and services is now considered a public official subject to criminal sanctions. Moreover, individuals who are not public officials can be subject to criminal sanctions for accepting bribes.

The AML/CFT Law

The Law of Mongolia on Combating Against Money Laundering and Terrorism Financing (the "AML/CFT Law") was adopted by Parliament on May 31, 2013, replacing similar legislation adopted in 2006. The purpose of the AML/CFT 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/CFT Law clarified definitions of politically exposed persons, ultimate beneficial owners and specially controlled transactions. The AML/CFT Law imposed obligations on such financial institutions to have their customers verified with "know your customer" procedures. The AML/CFT 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").

The AML/CFT Law created the Financial Intelligence Unit at the Bank of Mongolia mandated to collect and analyze information received from Reporting Entities and monitor implementation of the AML/CFT Law. Under the AML/CFT 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/CFT Law.

Furthermore, Mongolian banks are prohibited from opening accounts at so-called "shell banks," defined under the AML/CFT 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/CFT 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/CFT 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 Home Affairs and Ministry of 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/CFT Law in line with international best practices. Further minor amendments were made to the AML/CFT Law in 2019, 2020 and 2022.

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 findings made by a working group, which alleged abuse of power and misappropriation of state funds or funds of DBM carried out by certain former members of management of DBM. On December 5, 2022, the head of the Cabinet Secretariat made a statement that the prosecutor's office has submitted its request to transfer the case of 82 people to court in relation to the DBM criminal matter. A total of 48 people were acquitted, and 32 people and four legal entities were found guilty by the court. For additional information, see "*Legal Reform—Measures Against Corruption and Bribery*."

Law on State Retrenchment

On April 29, 2022, the Law on State Retrenchment was adopted to enforce financial discipline, ensure transparency, improve efficiency, and limit extravagance in public institutions and their operations. This law imposes restrictions including the prohibition of appointment of deputy heads and full-time advisors unless provided in law, restrictions relating to the use of vehicles, constructing new building for administration purposes, funding public relations activities as well as restrictions relating to projects and activities to be invested by state budget such as not to fund projects without feasibility study or land permits or non-public, for-profit projects.

Law on Inspection Within Government

On November 11, 2022, the Law on Inspection Within Government was adopted with the aim to enforce laws, increase discipline, responsibility and productivity, monitor the implementation of laws and regulations and create a monitoring system by Government with respect to decisions and actions of its subordinate agencies and officials. The subordinate agencies include ministries, agencies, aimag and capital city governors and officials, state owned enterprises and other state and local government entities.

The law creates a government inspection implementing authority, which will be headed by the deputy head of the Cabinet Secretariat, who is mandated to undertake monitoring, evaluation and research, receive reports and information and conduct inspections with respect to nine specific areas, including implementation of laws and regulations, provision of public services, ensuring the right of access to information, prevention of conflict of interests of subordinating agencies and officials of the Government.

Law on Regulation of Money Lending Activities

On November 4, 2022, the Law on Regulation of Money Lending Activities was adopted. The law stipulates that the registration and monitoring of legal entities engaging in money lending activities with collateral and individuals engaged in such activities permanently for the purpose of making a profit. The law sets out requirements and restrictions applicable to money lending activities. For example, the law provides that maximum interest rate shall be determined by a Policy Council on Money Lending Activities and that increased interest rate for loans shall not exceed 20% of the base interest rate.

Law on Permits

On June 17, 2022, Parliament adopted the Law on Permits, which came into force on January 1, 2023. The law intends to provide a unified framework for all licenses and permissions that are currently regulated under various different legislations and regulations and reduce the burden on businesses by bringing down the number of licenses and permits. The law prohibits creating or requiring new types of licenses or permits by state authorities or agencies unless an amendment is made to the law itself.

Personal Data Protection Law

On December 17, 2021, the Personal Data Protection Law was adopted, which regulates the collection, processing, use, and security of personal data. The provided only a limited scope of protection of data. As the Personal Secrets Law is relatively outdated and brief, the Personal Data Protection Law is considered Mongolia's first comprehensive legislation on the protection personal data.

Cyber Security Law

The Cyber Security Law was enacted on December 17, 2021 and became effective on May 1, 2022. The law was enacted with the aim of ensuring the integrity, confidentiality, and accessibility of data in the cyber environment.

Electronic Signatures Law

The Electronic Signatures Law was adopted on December 17, 2021 and became effective on May 1, 2022. The new law regulates the use of electronic signatures for paper-based information that is transferred in electronic form using the information system, or created, sent, received, stored, or made accessible in the electronic environment.

Law on Transparency of Public Information

The Law on Transparency of Public Information was adopted on December 17, 2021 and became effective on May 1, 2022. Under this new law, public information is classified as public, restricted and closed, and this law further requires that 68 types of information are made publicly available by five types of organizations, being government entities, state or locally owned legal entities, entities performing certain functions of government entities on the basis of law or contract, public radio and television and political parties. the law is intended to increase public access to information pertaining to government entities.

Law on Virtual Asset Service Providers

The Law on Virtual Asset Service Providers was adopted on December 17, 2021 and became effective on February 24, 2022. The law defines virtual asset service and provides that only legal entities can provide such services if they satisfy certain requirements including fulfilling the registration with the FRC.

Public-Private Partnership Law

On December 9, 2022, the Public-Private Partnerships Law was adopted. The law will repeal the Concession Law, effective from December 31, 2023. The law defines key terms relating to public-private partnerships ("PPP"), sets out the role and responsibilities of different government agencies for implementing PPPs, and stipulates the requirements applicable to PPP projects and the process for selecting, implementing and monitoring PPP projects and PPP agreements.

Law on Mining Products Exchange

On December 23, 2022, the Mining Products Exchange Law was adopted to establish and regulate the operations of mining products exchanges in Mongolia. The law provides that a mining product exchange must be a partially state-owned entity and that mining products of state and/or local government-owned entities must be traded through the exchange. In June 2023, the Mongolian Stock Exchange obtained a license to engage in mining products exchange from the FRC.

Law on Procurement of Goods, Works, and Services with State and Local Funds

On June 16, 2023, the revised Law on Procurement of Goods, Work and Services with State and Local Funds was adopted. This law will repeal the existing procurement law, effective from December 1, 2023. The law aims to enhance the transparency and accountability of procurement processes. The law includes certain anti-corruption related provisions, including (i) persons found to be implicated in corruption or money laundering-related crimes are ineligible to participate in tender processes; (ii) procuring entities must report to the IAAC when they enter into direct agreements or single-source purchase agreements; and (iii) officers or employees of procuring entities must declare that they are free from any conflict of interest, report any instances where a conflict of interest arises, and disclose any interference with their official duties.

Law on Political Parties

On July 7, 2023, the revised Law on Political Parties was adopted. This law will repeal the current Law on Political Parties, effective from January 1, 2024. The new law introduces procedures for establishing, registering, reorganizing, and dissolving political parties. Furthermore, the law outlines the conditions and criteria for state financial support to political parties and mandates clear reporting obligations regarding the financial sources and activities of political parties.

Law on Ethics of Public Servants

On May 4, 2023, the Law on Ethics of Public Servants was enacted to establish and uphold ethical principles and common norms for public servants. This law serves to prevent and address ethical breaches and impose sanctions. The law also provides for the establishment of an independent and impartial ethics committee and its sub-committee that will monitor and supervise the implementation of the law and address complaints and information received concerning ethical breaches. Furthermore, public servants are now required to comply with certain specific requirements provided under the Public Service Law, the Anti-Corruption Law and the CIL.

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.

On February 27, 2020, then-President Battulga Khaltmaa 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 Enkhtaivan. 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.

On February 5, 2022, Mongolia's Prime Minister Oyun-Erdene began a five-day working visit to China. During the visit, the two countries discussed the extension of the bilateral local currency swap agreement. The first swap arrangement between the two countries was established in 2011 with the objective of promoting bilateral trade 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. The agreement has been continuously extended, including most recently in August 2023, for an additional three years. Within the framework of Mongolia's "New Revival Policy," the two sides agreed to ensure the active private sector and investor participation in the implementation of major projects in the areas of ports, energy, industrialization, green development and the relieving traffic congestion in Ulaanbaatar. The border-crossing points at (i) the Gashuun Sukhait–Gantsmod port, which handles for more than 50% of Mongolia's major export product s such as copper and coking coal, and (ii) the Shivee Khuren–Ceke and Bichigt–Zunkhatavch ports were finalized.

On August 8, 2022, China's Foreign Minister, Wang Yi, visited Mongolia. During this visit, China and Mongolia agreed to promote the deep synergy between China's Belt and Road Initiative and Mongolia's Steppe Road Program, China's Global Development Initiative and Mongolia's New Revival Policy, and China's "two-step" development strategy and Mongolia's long-term development vision, in order to create three major engines for further development of bilateral relations. Both countries further agreed to promote cooperation in fields including economy and trade, investment, mining and energy, science and technology, agriculture and animal husbandry, the forging of major demonstration projects in areas including infrastructure and energy and striving to achieve coordinated development and common prosperity between the two countries. In particular, both countries agreed to promote the Erdeneburen hydropower plant project and speed up solving the electricity supply problem for people in western Mongolia.

On November 27, 2022, Mongolian President Khurelsukh visited China. During the visit, the two sides assessed the current state of Mongolia-China relations, determined the future directions of cooperation, and exchanged views on the issues including maintaining the frequency of high-level reciprocal visits, substantially increasing the exports of mineral products from Mongolia into China (especially coal products), expanding cooperation in the oil and gas sector, and accelerating joint projects funded by grants and concessionary loans. Both countries agreed that the construction projects aimed at children, including The Children's and Youth Sports Complex and the Grand Theater of National Arts, will be funded by grants from China. In addition, the two sides discussed the issues including enhancing the transshipment facilities at the cross-border checkpoint of the Tavan Tolgoi–Gashuun Sukhait railway as well as upgrading the infrastructure of the existing Zamyn Uud–Erlian border checkpoint. During the visit, the two sides signed 16 bilateral cooperation documents covering the economy and trade, investment, customs, and desertification control.

On May 1, 2023, Mongolia's Minister of Foreign Affairs Batmunkhiin Battsetseg visited China. Discussions between the two sides included relations and cooperation between the two countries, as well as regional issues of mutual interest. Both countries agreed to work on the long-term stable supply of Mongolia's mining products to the Chinese market and increasing Mongolia's export of agricultural products, to reach the goals of intensifying trade and economic cooperation between the two countries and increasing the trade turnover to US$20 billion in the coming years. In addition, Mongolia and China agreed to renew the 1955 Mongolia-China Border Railway Agreement and intensify the construction work at the Gashuunsukhait-Gantsmod railway border-crossing port, to improve the infrastructure of the border ports of Mongolia and China and to intensify the work of connecting the two countries by rail. They also agreed to advance the talks on adding the Khangi-Mandal railway port to the Agreement on Mongolia and China Border Ports. In connection with Mongolia's tourism strategy, the two countries agreed to support the cooperation of tourism companies, restore train passenger traffic between the two countries in the near future, and increase the number of flights. Furthermore, Mongolia and China agreed to fight together against desertification and yellow dust storms, in supporting Mongolian President Khurelsukh's One Billion Trees Movement.

On June 26, 2023, Mongolia's Prime Minister Oyun-Erdene began a six-day visit to China. As part of the visit, the two sides signed an intergovernmental agreement to strengthen cooperation in the transport sector. They also agreed to enhance cooperation and connectivity between the border ports of Gashuun Sukhait-Gantsmod, Shivee Khuren-Ceke, and Bichigt-Zuunkhatavch. They also signed a series of memoranda of understanding in relation to: (i) the cooperation in state-owned property and objects; (ii) export of sheep and goats; and (iii) cooperation between the Mongolian Stock Exchange and the Shanghai Stock Exchange.

On October 18, 2023, Mongolian President Khurelsukh participated in the Third Belt and Road Forum for International Cooperation in Beijing. He delivered a keynote address on "Co-Building a Green Silk Road to Promote Harmonious Coexistence between Humanity and Nature." On the sidelines of the forum, he held bilateral meetings with Chinese President Xi Jinping, and Russian President Vladimir Putin to discuss bilateral relations and cooperation. During the forum, China and Mongolia signed a series of memoranda of understanding and bilateral agreements in relation to the cooperation in: (i) low-carbon and green development; (ii) the Shivee Khuren-Ceke port cross-border railway; (iii) investment in the e-economy; (iv) tourism; (v) port management; (vi) smuggling; (vii) export of livestock and animal products.

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. 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.

On February 28, 2022, Mongolian Deputy Prime Minister Amarsaikhan and Chairman of the Management Committee of Gazprom Company Alexey Miller signed an agreement to launch blueprint development and engineering exploration works for the construction of the gas pipeline Soyuz Vostok in Mongolia, which will be a continuation of Power of Siberia II, a natural gas pipeline connecting Russia and China through the territory of Mongolia. On July 5, 2022, Russian Foreign Minister Sergey Lavrov visited Mongolia and met with Mongolian Foreign Minister Battsetseg Batmunkh. During the visit, both leaders reaffirmed their commitment to strengthening the cooperation between the two countries, including the Soyuz Vostok project, which is expected to complete its design and engineering study in 2023. Russian Foreign Minister Lavrov further expressed readiness to cooperate with Mongolia in all aspects. During

Mongolia's state visit to China on November, 2022, Chinese President Xi Jinping stated that China will actively support this project.

On October 17, 2023, Mongolian President Khurelsukh met with Russian President Vladimir Putin on the sidelines of the Third Belt and Road Forum for International Cooperation in Beijing. The two sides agreed to further discuss the export tariffs on agricultural products such as wool, cashmere, meat and meat products, and leather from Mongolia to Russia at the upcoming regular meeting of the Mongolia-Russia Intergovernmental Commission in Ulaanbaatar. In addition, both leaders exchanged views on ways to improve the efficiency of Ulaanbaatar Railway JSC, and potential areas of collaboration on the construction of Mongolia's east-west vertical railways. Moreover, the two sides agreed to conduct comprehensive research on constructing the Eg River hydropower plant in Mongolia.

Japan

On October 28, 2022, Japan, Mongolia, and the United States held a trilateral meeting in Tokyo. The three sides discussed regional security challenges, economic issues, and areas for cooperation. All sides emphasized the importance of strengthening the international economic order to counter new challenges, including economic coercion, and discussed the importance of improving Mongolia's business climate and ability to attract investment, particularly from Japan and the United States. Japan and the United States discussed their development projects in Mongolia and ways to enhance the mutual complementarity of such projects and their impact on furthering Mongolia's economic development. In particular, Mongolia and the United States briefed Japan on their joint $462 million Millennium Challenge Corporation Water Compact, which will expand Ulaanbaatar's water availability by 80%.

On November 29, 2022, Mongolian President Khurelsukh started a four-day state visit to Japan on the occasion of the 50th anniversary of the establishment of diplomatic relations between Mongolia and Japan. This was the first state visit from Mongolia to Japan in 12 years. During the visit, the two sides reviewed the 50 years of cooperation between the two countries since the establishment of diplomatic relations and exchanged views on future goals and prospects and cooperation in international and regional arenas. Both agreed to further develop Mongolia-Japan relations based on the principles of "Special Strategic Partnership for Peace and Prosperity." Moreover, both agreed to foster human-centered relations and cooperation based on the common values of democracy, freedom, human rights, and a market economy while stepping up collaborative efforts to address the challenges facing the international community.

On September 20, 2023, Mongolian President Khurelsukh held a bilateral meeting with Japanese Prime Minister Fumio Kishida on the sidelines of the 78th Session of the UN General Assembly. The two sides discussed relations and cooperation, the regional and international situation, and they affirmed their commitment to work together to contribute to the peace and prosperity of the region and strengthening cooperation aimed at solving global issues under the Free and Open Indo-Pacific concept.

United States

On May 30, 2023, the governments of Mongolia, the Republic of Korea, and the United States convened an inaugural trilateral meeting in Ulaanbaatar to foster and enhance common values and shared interests. The three countries discussed the opportunities for the trilateral partnership in economic development, UN peacekeeping efforts, and cooperation in law enforcement and anti-corruption initiatives. The three sides agreed to sustain discussions on energy security, mineral resources, climate change mitigation, transportation, supply chains, food security, intellectual property rights, as well as expanding trade and investment opportunities at various levels, including a high-level dialogue specifically focused on Mongolia's role in global mineral resources supply chains.

On June 27, 2023, Jose W. Fernandez, the U.S. Under Secretary of State for Economic Growth, Energy, and the Environment, signed a memorandum of understanding with the Government of Mongolia to promote secure and resilient critical mineral supply chains in the Indo-Pacific region. This memorandum of understanding established a framework for joint efforts between Mongolia and the United States in providing technical support to enhance Mongolia's capacity for attracting investments in the mineral resource sector, a crucial component of the global clean energy transition. The significance of critical minerals and rare earth elements in the Mongolian and U.S. economies is increasing, and the development of these resources was identified as instrumental in fortifying the economic foundations of both nations. The United States expressed its readiness to explore opportunities to aid Mongolia in the development of this sector, including facilitating private sector investments. Moreover, this memorandum of understanding underscores the broader U.S. objective of advancing high environmental, social, and governance standards in the global mining sector.

In August 2023, Mongolia's Prime Minister Oyun-Erdene paid an official visit to the United States at the invitation of U.S. Vice President Kamala Harris. The two parties issued a Joint Statement on the Strategic Third Neighbor Partnership between Mongolia and the United States. This partnership focuses on three key areas: advancing economic cooperation, promoting democratic principles, and strengthening security collaboration. During the visit, the two nations signed the Economic Cooperation Roadmap for the Strategic Third Neighbor Partnership (the "2023 Economic Cooperation Roadmap"). The 2023 Economic Cooperation Roadmap builds upon and expands the earlier 2018 Roadmap for an Expanded Economic Partnership. The 2023 Economic Cooperation Roadmap covers a wide-ranging collaboration encompassing various sectors, ranging from the mineral resource industry to e-commerce, trade facilitation, and the protection of intellectual property rights.

On August 4, 2023, the United States Transportation Secretary Pete Buttigieg and Mongolia Road and Transport Development Minister Byambatsogt Sandag signed an agreement that aims at "expanding options for travelers and shippers and encouraging closer people-to-people ties" between the two countries.

On August 29, 2023, the United States and Mongolia convened the 7th meeting of the U.S.-Mongolia Trade and Investment Council, established under the U.S.-Mongolia Trade and Investment Framework Agreement (TIFA), to discuss opportunities for deepening bilateral trade and investment ties between the two countries. During the meeting, Assistant U.S. Trade Representative Terry McCartin and Mongolian Deputy Prime Minister S.Amarsaikhan discussed a range of bilateral trade and investment issues, including transparency, regulatory best practices, the investment climate, intellectual property rights protection and enforcement, economic diversification, regional initiatives, and trade promotion.

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.

In September 2022, President Khurelsukh attended the 22nd Meeting of the Council of Heads of State of Shanghai Cooperation Organization (the "Summit") in Samarkand, Uzbekistan, as head of the Shanghai Cooperation Organization ("SCO") observer state delegations. During his participation in the Summit, President Khurelsukh met with the Secretary-General of the SCO, Zhang Ming, where President Khurelsukh discussed several issues of Mongolia-SCO interaction, including Mongolia's efforts to expand political, economic and cultural cooperation with the SCO, and expressed Mongolia's continuing interest in developing cooperation with the SCO as an observer country in various fields, especially in trade and economics. President Khurelsukh illustrated Mongolia's aim to become a hub for trade, transport and logistics networks using the advantages of Mongolia's location connecting Asia and Europe. During the Summit, President Khurelsukh also attended a trilateral meeting among Mongolia, China and Russia, where the heads of these three countries discussed proposals on promoting trilateral cooperation and the need to elevate cooperation within SCO's framework, implement the projects under the China-Mongolia-Russia Economic Corridor, and cultivate more deliverables of trilateral cooperation.

In September 2022, the United States, led by Secretary of State Antony J. Blinken and Export Import Bank of the U.S. Chair and President Reta Jo Lewis, hosted a high-level ministerial event to advance the Minerals Security Partnership by convening partners and key minerals-rich countries to discuss priorities, challenges, and opportunities in responsible mining, processing, and recycling of critical minerals. Mongolia attended this meeting as one of the minerals-rich countries.

In October 2023, during President Khurelsukh's visit to France, the two sides signed a joint venture protocol agreement valued at € 1.6 billion between Erdenes Mongol, Mongolia's state-owned mining corporation, and Orano Group, a French mining company. The agreement covers exploration for uranium deposits in Zuuvch-Ovoo in Mongolia's southwestern Dornogovi province. This project has the potential to bring Mongolia US$1.6 billion of direct investment over the life of the project as well as US$1 billion in tax income nationally and locally. The investment agreement is expected to be signed by the end of 2023. This project is expected to commence production in 2028. In addition, the two sides also agreed to cooperate in lithium exploration using satellite imagery.

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, the 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 September 30, 2023:

Name of organization	Date of affiliation	Mongolia's subscription	Amount paid in by Mongolia	Mongolia's outstanding borrowing	Type of funding
USAID	1991	Not applicable	Not applicable	Not applicable	Grant based
ADB	1991	1,596 shares (SDR 15.96 million equivalent) 1,596 shares US$ 22.07 million	US$1.11million	US$1,919.6 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$44.4 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$110.5 million	Sovereign backed loan
IBRD (the World Bank)	1991	466 shares	Not applicable	US$33.8 million	Borrowing

Source: Ministry of Finance.

THE MONGOLIAN ECONOMY

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 77.8% of the nation's GDP in 2022, according to the National Statistical Office of Mongolia. Mongolia's economy had a real GDP contraction of 4.6% in 2020, growth of 1.6% in 2021, 4.8% in 2022, and a growth of 6.9% in the first nine months of 2023. 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 maintaining a low target inflation rate, a growing dependence on the production and export of commodities that have volatile prices, currency depreciation, limited foreign currency reserves, trade dependence on China, a growing need for foreign direct investment to develop infrastructure projects, and fuel and energy requirements and managing the after-effects of the COVID-19 pandemic.

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 effect of the COVID-19 pandemic on the Mongolian economy. However, in 2021, Mongolia's inflation rate increased to 13.8% mainly attributable to the supply-driven price increases induced by border restrictions, the spread of infectious livestock diseases and rising transportation costs. The inflation rate in 2022 was 13.2%. At the end of 2022, the Monetary Policy Committee of the Bank of Mongolia (MPC) raised the policy rate by 1 percentage point to 13%, taking into consideration the effects of the increase in global inflation, food, and fuel prices. As of October 31, 2023, the policy rate remained at 13%. In the first nine months of 2023, Mongolia's inflation rate decreased to 10.1%, as supply shocks and trade disruption risks waned. However, this rate was higher than Bank of Mongolia's inflation target of 6% +/-2% for full year 2023, due to factors such as the growth in public sector wage and revived domestic demand.

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 addresses 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:

- Parliament approved the Medium-Term Debt Strategy 2023-2025 in May 2022;
- 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 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;

- Trilateral meeting among President Khurelsukh, Russian President Vladimir Putin and Chinese President Xi Jinping in China on the sidelines of the Shanghai Cooperation Organization summit in Samarkand, Uzbekistan on September 15, 2022 further deepened trilateral economic cooperation;

- the Government announced a US$1.8 billion economic stimulus package in response to the COVID-19 pandemic 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 and to mitigate the adverse effects on the economy, the Government adopted a four-year plan of MNT10.0 trillion, under which the Government would lend concessional loans to targeted groups. As of December 31, 2022, a total of MNT5.9 trillion of concessional loans under this plan have been disbursed to targeted groups, and the Government estimated that a total of 109.8 thousand jobs were protected by this disbursement as a result;

- 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;

- the Tavan Tolgoi–Gashuun Sukhait railway, the second cross-border railway connection of Mongolia with China, commenced operation on September 9, 2022;

- the Zuunbayan–Khangi railway, the third cross-border railway connection of Mongolia with China, commenced operations on November 25, 2022; and

- exports of coal, which were suspended on February 10, 2020, resumed from March 2020 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 Gashuun Sukhait, Shivee Khuren 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:

	Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Average daily number of coal trucks......	**2019**	731	880	1,400	1,350	1,394	1,001	1,113	1,424	1,480	1,306	891	727
	2020	814	178	114	315	768	936	1,012	1,560	1,734	1,628	1,138	645
	2021	797	817	722	621	384	256	309	401	482	497	436	177
	2022	182	275	399	444	632	786	989	1,155	1,137	1,086	1,090	1,287
	2023	1,133	1,603	1,816	1,798	1,426	1,730	1,810	2,061	1,971	2,116	-	-

- A new construction and demolition waste recycling plant and waste landfill were under construction in Ulaanbaatar. The new plant will include the capacity to recycle 150 thousand tons of solid waste per month.

- The Oyu Tolgoi copper and gold mine commenced underground production on March 13, 2023.

- Mongolia's five domestic systemically important banks, namely State Bank, Golomt Bank, Khan Bank, Trade and Development Bank, and Xac Bank, all completed their listings on the Mongolian Stock Exchange, with the last of these completed on May 5, 2023.

- The construction of a 530 km oil pipeline to transport crude oil from oil fields in the Tamsag Basin in the easternmost region of Mongolia to an oil refinery, which will be Mongolia's first, to be constructed approximately 200 kilometers north of Ulaanbaatar, started in April 28, 2023 and is scheduled to be completed in 2025.

- The construction of a 7.1 km railway connecting the Mongolian port Shivee Khuren with the Chinese border port Ceke started on May 27, 2023. As of September 30, 2023, 45% of the total construction work had been completed.

- A cathode copper processing plant is being implemented by Erdenet Mining Corporation SOE ("EMC"). EMC has started the feasibility study and detailed engineering design to increase the plant's capacity up to 10,000 metric tons per year using solvent extraction and electrowinning technology.

Mining

On March 13, 2023, the Oyu Tolgoi copper mine announced that it had commenced underground production. The Prime Minister of Mongolia Oyun-Erdene and Rio Tinto Chief Executive Jakob Stausholm celebrated the commencement at Oyu Tolgoi in the Gobi Desert. Oyu Tolgoi is expected to produce around 500,000 metric tons of copper per year on average from 2028 to 2036 from its combined open pit and underground operations, enough to produce around 6 million electric vehicles annually, and an average of around 290,000 metric tons of copper per year over the mine's reserve life of around 30 years.

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

	As of and for the year ended December 31,					As of and for the nine months ended September 30,	
Macroeconomic Data	**2018**	**2019**	**2020**	**2021**	**2022**	**2022**	**2023**[(1)(2)]
Nominal GDP (MNT billions)	32,582.6	37,839.2	37,453.3	43,555.5	53,851.5	35,908.8	46,502.2
Nominal GDP (US$ millions)[(3)]	13,178.0	14,206.6	13,312.9	15,286.4	17,146.3	11,760.3	13,382.3
Real GDP (MNT billions)[(4)]	26,446.7	27,928.3	26,655.4	27,091.7	28,455.1	20,286.9	21,695.0
Real GDP (US$ millions[(3)])[(4)]	10,696.3	10,485.6	9,474.8	9,508.2	9,060.1	6,644.0	6,243.4
Real GDP growth	7.7	5.6	(4.6)	1.6	5.0	3.8	6.9
Nominal GDP per capita (MNT thousands)[(5)]	10,314.1	11,855.6	11,612.9	13,267.9	16,121.0	N/A	N/A
Nominal GDP per capita (US$[(3)])[(5)]	4,171.5	4,451.1	4,127.9	4,656.5	5,132.9	N/A	N/A
Year-on-year inflation	8.1	5.2	2.3	13.8	13.2	13.8	10.1
Exports (US$ millions[(3)])	7,011.8	7,619.6	7,576.3	9,241.1	12,538.6	8,924.2	11,296.2
Imports (US$ millions[(3)])	5,875.0	6,127.5	5,298.9	6,845.5	8,704.4	6,356.4	6,755.5
Balance of payments(US$ millions[(3)])	(141.6)	452.9	786.9	(221.6)	(727.2)	(1,358.9)	791.4
Unemployment rate (%)	7.8	10.0	7.0	7.8	6.7	5.4	5.2
Gross external debt (US$ millions[(3)])[(6)]	28,714.9	30,702.3	32,361.8	33,805.5	33,344.8	32,515.0	33,790.2 [(7)]
Gross foreign exchange reserves (US$ millions[(3)])	3,549.6	4,348.6	4,534.2	4,366.1	3,399.6	2,794.6	4,124.4
Gross foreign reserves import cover (months)	7.6	9,1	10.7	7.7	4.6	3.5	5.3

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

(1) Provisional figures subject to further adjustments.

(2) Preliminary figures as of September 30, 2022 unless otherwise indicated.

(3) The following exchange average rates (representing the average of monthly exchange rates for any given year or period as published by the Bank of Mongolia) were applied: 2018 – MNT2,472.5 = US$1.00, 2019 – MNT2,663.5 = US$1.00, 2020 – MNT2,813.3 = US$1.00, 2021 – MNT2,849.3 = US$1.00, 2022 – MNT3140.7 = US$1.00, September 30, 2023 – MNT3,474.9 = US$1.00.

(4) Real GDP calculated at 2015 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.

(7) Figures as of June 30, 2023.

Ratings

S&P

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.

On June 30, 2021, S&P affirmed Mongolia's long-term sovereign credit rating at B with a stable outlook, citing Mongolia's anticipated economic rebound from COVID-19, which is expected to lead to stabilization in external, fiscal and debt metrics. S&P also affirmed Mongolia's short-term credit rating at B.

On July 21, 2022, S&P affirmed Mongolia's long-term sovereign credit rating at B with a stable outlook, citing Mongolia's sound economic growth prospects and ongoing improvements to its fiscal metrics and decreased external debt risk. S&P also affirmed Mongolia's short-term credit rating at B.

On December 15, 2022, S&P withdrew its B long-term credit rating on the US$5 billion global medium-term note ("MTN") program issued by the Government. The rating was withdrawn at the Government's request. S&P affirmed that Mongolia's credit ratings that S&P released on July 21, 2022 remained in place.

On July 27, 2023, S&P affirmed Mongolia's long- and short-term sovereign credit ratings at B with a stable outlook, citing Mongolia's modest per capita income, evolving institutional framework and high external imbalances, weighing against the consistent access to concessional financing from multilateral and bilateral partners.

Fitch

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.

On May 18, 2022, 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 and the border disruptions between Mongolia and China associated with COVID-19 pandemic will ease in 2023.

On May 15, 2023, 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 due to the recovery of the mining sector, as well as the stabilization of external debt financing following the successful debt refinancing in early 2023.

Moody's

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.

On July 13, 2022, 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, with outlook remaining stable.

On September 7, 2022, Moody's analysts visited Mongolia to conduct an annual rating review.

On February 14, 2023, 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, with outlook remaining stable. The short-term issuer ratings were affirmed at Not Prime. The ratings reflected Mongolia's elevated liquidity and external risks, balanced by strong growth prospects, as well as a debt repayment profile that has stabilized at more sustainable level compared to the past. Mongolia's country ceilings remained unchanged.

Economic Policy Objectives

The "New Revival Policy," which was approved by Parliament Resolution No. 106 of 2021, targets to strengthen the economic independence of Mongolia, reduce the adverse impact of the COVID-19 epidemic on its economy, resolve the factors limiting its development, and lay a solid foundation for the effective implementation of Vision-2050. Mongolia has commenced the relevant work, including the framework of implementation of the medium-term target program of up to ten years aimed at improving Mongolia's economy, infrastructure, and state productivity. Within the framework of the New Revival Policy, Mongolia identified, and aspires to eliminate, six recovery areas that limit Mongolia's development, including border ports, energy, industrial, urban and rural development, green development, and state productivity, thereby increasing its economic diversification. The New Revival Policy envisages a total of 94 projects, with the total projected costs of US$24.6 billion. Among these costs, 45.2%, or up to US$11.0 billion for 32 projects, are expected to be funded by direct investment; 44.6%, or up to US$10.9 billion for 40 projects, are expected to be funded through public-private partnership; and 10.2%, or up to US$2.5 billion for 20 projects, are expected to be funded through state budget. The projects envisaged compass 48 infrastructure projects, including (i) 11 railroad projects, with four ongoing and seven planned, (ii) seven airport projects, with one ongoing and six planned; (iii) nine border and port projects, with three ongoing and six planned, (iv) road projects, with six ongoing and ten planned, and (v) five other infrastructure and border ports projects, all of which have been completed. The New Revival Policy also includes legislative reforms including the adoption of Public-Private Partnership Law, the revised Investment Law, the revised Land law and the revised Minerals Law. With the implementation of the New Revival Policy, Mongolia targets to achieve the first stage goals of the Vision-2050, have its average annual economic growth to reach 6%, and double its GDP per capita.

In addition, the economic policies and current targets as outlined specifically 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.

GDP and Major Financial Indicators

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, cattle, horses, 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 69.4%, 81.3%, 84.1% and 86.1% of total exports in 2020, 2021, 2022 and the first nine months of 2023, respectively. Furthermore, the mining sector employed 4.4%, 5.0%, 5.1% and 5.2% 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 nine months ended September 30,
	2018	2019	2020	2021	2022	2023[(1)]
			(US$ thousands)			
Copper	2,012,194	1,795,868	1,778,002	2,899,857	2,734,846	1,999,786
Coal	2,802,518	3,078,819	2,126,607	2,774,073	6,503,248	6,518,076
Crude oil	391,988	366,666	150,853	273,353	241,806	271,023
Iron ore	342,181	576,577	639,697	952,200	391,047	323,640
Gold	144,499	418,394	1,787,652	1,004,520	1,127,419	560,792

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 5.6% 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.

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 2015 as the base year.

In the nine months ended September 30, 2023, Mongolia's GDP increased by 6.9%, as compared with growth of 3.8% in the corresponding period in 2022. GDP growth in this period was primarily due to (i) expansion of mining and exports and (ii) growth of the transportation sector.

In 2022, Mongolia's GDP increased by 5.0% compared to growth of 1.6% in 2021. This increase was primarily due to the expansion of mining and exports, and the post-pandemic recovery in services.

In 2021, Mongolia's GDP increased by 1.6% compared to contraction of 4.6% in 2020. This increase was primarily due to growth in the service sector, which grew by 3.9% compared with a contraction of 6.5% in 2020, partially offset by a contraction in industry sector and agriculture sector due to decreased export to China in relation to the prolonged border crossings shutdown.

In 2020, Mongolia's GDP contracted by 4.6% compared to growth of 5.6% in 2019, primarily due to the outbreak of COVID-19 which led to a 4.4% contraction in the industry sector as compared to 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.

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

	For the year ended December 31,					For the nine months ended September 30,	
	2018	**2019**	**2020**	**2021**	**2022**	**2022**	**2023[1]**
				(MNT billions)			
Total GDP	32,583	37,839	37,453	43,555	53,852	35,909	46,502
Sectors:							
Industry	12,374	14,414	13,876	16,148	19,016	11,355	17,149
Mining and quarrying	8,371	9,590	8,722	10,754	12,402	7,767	12,489
Manufacturing	2,298	2,675	2,905	3,096	3,833	2,181	2,915
Electricity, gas, steam and air conditioning supply, water supply	719	820	882	929	997	642	826
Construction	986	1,329	1,368	1,369	1,784	765	919
Agriculture	3,724	4,374	4,856	5,733	7,016	4,981	5,216
Agriculture, forestry and fishing	3,724	4,374	4,856	5,733	7,016	4,981	5,216
Service	12,967	15,037	15,166	17,267	22,067	15,332	19,297
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,090	3,644	3,437	4,070	5,678	3,312	3,938
Transportation and storage	1,539	1,687	1,412	1,597	2,511	1,887	3,221
Information and Communication	572	666	717	915	1,065	766	932
Other service activities	7,766	9,040	9,600	10,685	12,813	9,367	11,206
Net taxes on products	3,518	4,014	3,556	4,406	5,753	4,240	4,840

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 2015 constant prices for the periods indicated:

	For the year ended December 31,					For the nine months ended September 30,	
	2018	2019	2020	2021	2022	2022	2023(1)
	(MNT billions)						
Total GDP	26,447	27,928	26,665	27,092	28,455	20,287	21,695
Sectors:							
Industry	7,750	7,988	7,637	7,468	7,130	4,327	5,097
Mining and quarrying	4,135	4,135	3,667	3,698	3,133	2,059	2,742
Manufacturing	2,074	2,153	2,227	2,208	2,343	1,353	1,405
Electricity, gas, steam and air conditioning supply, water supply	622	661	673	737	761	522	549
Construction	919	1,105	1,070	825	893	393	401
Agriculture	3,608	3,797	4,019	3,796	4,252	3,375	3,054
Agriculture, forestry and fishing	3,608	3,797	4,019	3,796	4,252	3,375	3,054
Service	12,217	12,994	12,147	12,624	13,501	9,513	19,297
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,881	3,195	2,797	2,958	3,256	2,223	2,357
Transportation and storage	1,482	1,547	1,265	1,172	1,280	744	1,178
Information and Communication	516	578	609	734	783	599	696
Other service activities	7,338	7,674	7,476	7,760	8,182	5,947	6,108
Net taxes on products	2,872	3,148	3,148	3,202	3,571	3,073	3,204

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 nine months ended September 30,	
	2018	2019	2020	2021	2022	2022	2023(1)
	(in percentages)						
Industry	38.0	38.1	37.0	37.1	35.3	31.6	36.9
Mining and quarrying	25.7	25.3	23.3	24.7	23.0	21.6	26.9
Manufacturing	7.1	7.1	7.8	7.1	7.1	6.1	6.3
Electricity, gas, steam and air conditioning supply, water supply	2.2	2.2	2.4	2.1	1.9	1.8	1.8
Construction	3.0	3.5	3.7	3.1	3.3	2.1	2.0
Agriculture	11.4	11.6	13.0	13.2	13.0	13.9	11.2
Agriculture, forestry and fishing	11.4	11.6	13.0	13.2	13.0	13.9	11.2
Service	39.8	39.7	40.5	39.6	41.0	42.7	41.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.5	9.6	9.2	9.3	10.5	9.2	8.5
Transportation and storage	4.7	4.5	3.8	3.7	4.7	5.3	6.9
Information and communication	1.8	1.8	1.9	2.1	2.0	2.1	2.0
Other service activities	23.8	23.9	25.6	24.5	23.8	26.1	24.1
Net taxes on products	10.8	10.6	9.5	10.1	10.7	11.8	10.4
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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 69%, 81%, 84% and 86% of total exports in 2020, 2021, 2022 and the nine months ended September 30, 2023, 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. However, tourist arrivals to Mongolia from 2020 to 2022, including during the high summer season, fell dramatically due to the COVID-19 pandemic and associated border closures and the reduction in travel globally. Mongolia fully opened its air borders to all tourists in February 2022. The Government announced a decision to designate 2023, 2024, and 2025 as "Visit Mongolia Years," and tourist arrivals in the first nine months of 2023 showed a strong recovery. The revised Law on Tourism was approved in May 2023, and it includes the following measures to support Mongolia's tourism: (i) 100% of value-added tax on goods and products purchased by tourists will be refunded; (ii) the number of countries to which e-Visa can be issued will be doubled, and visas will be issued online within 48 hours through an electronic system; and (iii) air transportation will be more liberalized, with Mongolia accepting passenger flights from any country with no restrictions within the next three years. In 2020, 2021, 2022 and the first nine months of 2023, Mongolia recorded 58.9 thousand, 33.1 thousand, 286.3 thousand and 486.2 thousand tourists, respectively.

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 2.3% for 2020, 13.8% for 2021, and 13.2% for 2022. For the first nine months of 2023, Mongolia's inflation rate was 10.1%, which was above the Bank of Mongolia's inflation target of 6% +/-2%. The higher levels of inflation in recent years are primarily attributable to external factors such as the increased prices of imported goods. The extent of such impact is expected to alleviate in the upcoming quarters, leading to lower inflation outlook. 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 nine months ended September 30,
	2018[(2)]	2019[(2)]	2020[(2)]	2021[(3)]	2022[(3)]	2023[(1)(3)]
	(index)					
Food and non-alcoholic beverages...........	111.1	120.4	130.6	121.7	140.5	155.5
Alcoholic beverages and tobacco.............	113.4	117.2	122.1	105.9	114.5	119.3
Housing, water, electricity and fuels........	128.7	132.8	123.1	106.9	123.4	125.9
Furnishing, household equipment and tools..	114.0	118.5	122.4	110.3	126.4	132.6
Clothing, footwear and cloth	114.3	122.4	126.9	107.7	127.6	132.2

Transport	119.0	117.3	111.3	123.8	131.5	130.9
Education	129.7	142.2	142.7	104.2	111.2	129.8
Miscellaneous goods & services	115.9	122.6	128.2	112.2	136.1	156.3
Communication	98.6	98.6	98.8	101.2	103.5	103.4
Overall inflation	116.0	122.0	124.8	114.1	129.2	137.5

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

(2) All figures for the year 2018 to 2020 are calculated at 2015 constant prices.

(3) All figures for the year 2021, 2022 and the nine months ended September 30, 2023 are calculated at 2020 constant prices.

According to the National Statistical Office of Mongolia, for the nine months ended September 30, 2023, Mongolia's inflation rate was 10.1%, which was substantially above the Bank of Mongolia's inflation target of 6% +/-2% for full year 2023.

In 2022, Mongolia's inflation rate was 13.2%, which was substantially above the Bank of Mongolia's inflation target, mainly attributable to increased global inflation, food, and fuel prices.

In 2021, Mongolia's inflation rate was 13.8%, which was substantially above the Bank of Mongolia's inflation target, mainly attributable to the supply-driven price increases induced by border restrictions, the spread of infectious livestock diseases and rising transportation costs.

In 2020, Mongolia's inflation rate was 2.3%, which was substantially below the Bank of Mongolia's then-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.

The Monetary Policy Committee cut the policy rate by five percentage points from 11.0% at the beginning of 2020 to 6.0% in December 2020. The impact of COVID-19 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 were aimed at ensuring economic and financial stability while keeping inflation around the target rate. Therefore, necessary monetary measures were implemented to lessen the adverse economic consequences of the COVID-19 pandemic and to support economic activity. However, in response to the rising inflation rate beginning in 2021, the Monetary Policy Committee has steadily increased the policy rate in March 2022, by 0.5 percentage points, 2.5 percentage points, 1.0 percentage points, 2.0 percentage and 1.0 percentage in January 2022, March 2022, June 2022. September 2022 and December 2022, respectively, reaching 13.0% in December 2022. The policy rate has remained at 13.0% through the most recent meeting of the Monetary Policy Committee on September 15, 2023. The Monetary Policy Committee's policy actions have been targeted to return inflation to stabilizing around the target level in the medium term.

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 2020, 2021, 2022 and the nine months ended September 30, 2023, comprising 72.5%, 82.7%, 84.3% and 91.3% of Mongolia's exports, respectively. China's economic growth slowed to 2.3% in 2020, 8.1% in 2021, 3.0% in 2022 and 4.9% in the nine months ended September 30, 2023. These lower levels of growth in the Chinese economy, as compared with the consistently high growth rates in previous years, have, in turn, adversely affected the Mongolian economy. Mongolia's coal exports to China, in particular, coking coal used in steelmaking, may have also benefited from strains in China's relations with both Australia and Canada, but 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 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. In 2017, the Government of Mongolia commenced the refinery project in Altanshiree soum of Dornogovi province, with a loan of approximately US$1.2 billion from the Government of India. This project is being implemented by Mongol Refinery State Owned LLC. Once completed, the plant is expected to annually produce 43,000 tons of liquid petroleum gas fuel, 339,000 tons of 95-octane gasoline, 40,000 tons of jet fuel, 864,000 tons of diesel fuel, and a total of 1.3 million tons of products, or approximately 55% of Mongolia's annual needs. The refinery is expected to reduce Mongolia's dependence on fuel imports, stabilize domestic price fluctuations and inflation, reduce trade deficits, and bring socio-economic benefits. The feasibility study for the project was approved in November 2018. The Government of Mongolia supported this project and built a 17 km heavy-duty paved road, 27.7 km of railway and power lines. The project is divided into four stages, and engineering-procurement-construction-1 (the "EPC-1") aims to create engineering facilities. As of August 31, 2023, over 700 workers are working on the construction site and the project is at 96.8% completion. EPC-2 and EPC-3 are non-technological structures and power supply facility for the oil refinery, respectively, and Megha Engineering & Infrastructures Limited has been selected as a general contract for both stages. EPC-4 is a deep-processing facility. The Government has selected and signed agreements with the relevant special technology license holders, including licensees of hydrogen facility, sulfur separation facility, and gasoline refining, hydrocracking, diesel hydrotreating, diesel hydrotreating, and liquefied combustible gas separation facilities. The Government plans to intensify the construction of the oil refinery to make up for the 13 months of work lost during the COVID-19 pandemic, and to put the plant into operation in 2027.

In an effort to reduce its dependence on Russia for petroleum imports, Mongolia has also been conducting exploration activities that have revealed positive geological and geophysical data. Recent discoveries of oil have been reported, indicating a high probability of petroleum reserves. 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.

In April 2023, the Government started the construction of a 530 km oil pipeline to transport crude oil from oil fields in Tamsag Basin in eastern Mongolia to the new refinery. The crude oil pipeline is scheduled to be completed in 2025.

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, water supply. In 2020, 2021, 2022 and the nine months ended September 30, 2023, the industry sector represented 37.0%, 37.1%, 35.3% and 36.9%, respectively, of nominal GDP.

In the nine months ended September 30, 2023, the industry sector recorded growth of 17.8%, compared with a contraction of 9.5% in the corresponding period of the previous year. This growth was mainly driven by a 33.2% increase in the mining and quarrying subsector, which was primarily due to the expansion of mining exports after the COVID-19 pandemic.

In 2022, the industry sector recorded a contraction of 4.5%, compared with a contraction of 2.2% in the previous year. This contraction was mainly driven by a 15.3% decrease in the mining and quarrying subsector, which was primarily due to the decreased production in oil, iron ore and molybdenum.

In 2021, the industry sector recorded a contraction of 2.2%, compared with contraction of 4.4% in the previous year. The smaller contraction was mainly driven by a 0.8% growth in the mining and quarrying subsector, which was primarily due to more relaxed border restrictions between China and Mongolia for parts of the year and Mongolia's overall economic recovery from the pandemic, including the growth of both mining and quarrying and non-mining and quarrying subsectors.

In 2020, the industry sector recorded a contraction of 4.4%, compared with growth of 3.1% in the previous year. This contraction was mainly driven by a 9.9% 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.

Agriculture

The agriculture sector consists of agriculture, forestry and fishing and represented 13.0%, 13.2%, 13.0% and 11.2% of nominal GDP in 2020, 2021, 2022 and the nine months ended September, 2023, respectively.

In the nine months ended September 30, 2023, the agriculture sector recorded a contraction of 9.5%, compared with growth of 10.2% in the corresponding period of the prior year. This contraction was mainly driven by high livestock losses caused by severe winter conditions.

In 2022, the agriculture sector recorded growth of 12.0%, compared with a contraction of 5.5% in the prior year. This growth was mainly driven by newly delivered dam livestock and less natural loss of adult livestock.

In 2021, the agriculture sector recorded a contraction of 5.5%, compared with growth of 5.8% in the prior year. This growth was mainly driven by decreases in livestock products and livestock supplied for food.

In 2020, the agriculture sector recorded growth of 5.8%, compared with growth of 5.2% in the prior year. This growth was mainly driven by the stable weather conditions throughout the year.

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 39.5%, 39.6%, 41.0% and 41.5% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

In the nine months ended September 30, 2023, the service sector recorded growth of 8.7%, compared with growth of 6.4% in the corresponding period of the prior year. This growth was mainly driven by increases in the transportation and storage subsector.

In 2022, the service sector recorded a growth of 6.9%, compared with a growth of 3.9% in 2021. This increase was mainly driven by growth of 10.1% in the wholesale and retail trade subsector, which was primarily due to increased demand for imported goods, and 5.4% growth in the other service activities sector, which was primarily due to growth of hotel and catering services as a result of the recovery of the tourism industry after the COVID-19 pandemic.

In 2021, the service sector grew by 3.9%, compared to contraction of 6.5% in 2020. This was mainly driven by 5.8% growth in the wholesale and retail trade subsector, which was primarily due to 14.1% growth in wholesale in products other than vehicles and motorcycle, and 20.5% growth in the information and communication subsector, which was primarily due to 23.9% growth in telecommunication and 42.4% growth in other telecommunication sectors. The growth was partially offset by a contraction of 7.4% in the transportation and storage sector, primarily due to a 27.8% contraction in road transportation sub-sector.

In 2020, the service sector contracted by 6.5%, compared to growth of 6.4% in 2019. This was mainly driven by an 12.5% 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 18.2% contraction in the transportation and storage subsector, which was also primarily due to the effects of the COVID-19 pandemic.

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 and quarrying sub-sector represented 23.3%, 24.7%, 23.0% and 26.9% of nominal GDP in 2020, 2021, 2022 and the nine months ended September, 2023, respectively.

The mining and quarrying sub-sector recorded growth of 33.2% in the nine months ended September 30, 2023, compared with a contraction of 20.1% in the corresponding period of the prior year. This growth was primarily due to the opening of Oyu Tolgoi's underground mine and its increased production of copper concentrate.

The mining and quarrying sub-sector recorded a contraction of 15.3% in 2022, compared with growth of 0.8% in the prior year. This contraction was primarily due to decreases in the production of coal, oil and copper concentrate.

The mining and quarrying sub-sector recorded growth of 0.8% in 2021, compared with a contraction of 9.9% in the prior year. This contraction was primarily due to the increase in oil and copper concentration mining.

The mining and quarrying sub-sector recorded a contraction of 9.9% in 2020, compared with a contraction of 1.6% in the prior year. This contraction was primarily due to the substantial drop in coal exports.

The mining and quarrying sub-sector is the predominant source of Mongolia's exports, with mineral products representing approximately 69.4%, 81.3%, 84.1% and 86.1% of total exports in 2020, 2021, 2022 and the nine months ended September 30, 2023, 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 decreased to approximately 22.7% in 2022 compared to 33.1% in 2021. Total copper exports were approximately 1,453.3 thousand tons in 2022 and approximately 1,282.5 thousand tons in 2021. Oyu Tolgoi produced: (i) 137.8 thousand tons of copper, 760.0 thousand ounces of silver and 150.0 thousand ounces of gold in 2020, (ii) 139.0 thousand tons of copper, 783.0 thousand ounces of silver and 435.0 thousand ounces of gold in 2021, and (iii) 132.0 thousand tons of copper, 836.0 thousand ounces of silver and 207.0 thousand ounces of gold in 2022. Oyu Tolgoi LLC paid various taxes to the Government in the aggregate amount of US$209.0 million in 2019, US$200.0 million in 2020, US$593.0 million in 2021 and US$207.0 million in 2022.

The contribution of coal to Mongolia's exports has significantly increased over the past decade to approximately 54.0% in 2022 compared to 16.2% in 2009. Total coal exports were 31.8 million tons in 2022, 16.1 million tons in 2021 and 28.7 million tons in 2020. Erdenes Tavan Tolgoi exported 9.1 million tons, 6.1 million tons and 13.5 million tons of coal in 2020, 2021 and 2022, 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 46.6%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 7.8%, 7.1%, 7.1% and 6.3% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The manufacturing sub-sector recorded growth of 3.9% in the nine months ended September 30, 2023, compared to growth of 1.9% in the corresponding period of the prior year, primarily due to an increase in meat production.

The manufacturing sub-sector recorded growth of 6.1% in 2022, compared to a contraction of 0.9% in the prior year, primarily due to an increase in textile, food and beverages production, as the sub-sector recovered after the COVID-19 pandemic.

The manufacturing sub-sector recorded a contraction of 0.9% in 2021, compared to growth of 3.4% in the prior year, primarily due to a 11.3% contraction in beverage production and a 11.6% contraction in dairy production, partially offset by 22.2% growth in clothing production.

The manufacturing sub-sector recorded growth of 3.4% in 2020, compared to growth of 3.8% in the prior year, primarily due to declines in textile and meat production.

Construction

The construction sector represented 3.7%, 3.1%, 3.3% and 2.0% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The construction sub-sector recorded growth of 2.1% in the nine months ended September 30, 2023, compared to growth of 3.9% in the corresponding period of the prior year. Growth in this sub-sector was primarily a result of increases in construction developments after the COVID-19 pandemic.

The construction sub-sector recorded a growth of 8.2% in 2022, compared to a contraction of 22.8% in the prior year.

The construction sub-sector recorded a contraction of 22.8% in 2021, compared to contraction of 3.2% in the prior year. This was primarily a result of COVID-19 related control measures for the construction sector and increased construction material prices, which decreased construction activities.

The construction sub-sector recorded a contraction of 3.2% in 2020, compared to growth of 20.2% in the prior year. This was primarily a result of a slowdown in residential construction with slower lending.

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

The electricity, gas, steam and air conditioning supply, 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, water supply sub-sector represented 2.4%, 2.1%, 1.9% and 1.8% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The electricity, gas, steam and air conditioning supply, water supply sub-sector grew by 5.1% in the nine months ended September 30, 2023, compared to a growth of 4.4% in the corresponding period of the prior year.

The electricity, gas, steam and air conditioning supply, water supply sub-sector grew by 3.3% in 2022, compared to growth of 9.5% in the prior year.

The electricity, gas, steam and air conditioning supply, water supply sub-sector grew by 9.5% in 2021, compared to growth of 1.8% in the prior year.

The electricity, gas, steam and air conditioning supply, water supply sub-sector grew by 1.8% in 2020, compared to growth of 6.3% in the prior year.

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 13.0% in 2022. The agriculture sector represented 13.0%, 13.2%, 13.0% and 11.2% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The agriculture sector contracted by 9.5% in the nine months ended September 30, 2023, compared to a growth of 10.2% in the corresponding period of the prior year. This contraction was primarily due to high losses of livestock caused by severe winter conditions

The agriculture sector grew by 12.0% in 2022, compared to contraction of 5.5% in 2021. This growth was primarily due to newly delivered dam livestock and less natural loss of adult livestock.

The agriculture sector contracted by 5.5% in 2021, compared to growth of 5.8% in 2020. The contraction was primarily due to decreases in livestock products and livestock supplied for food.

The agriculture sector grew by 5.8% in 2020, compared to growth of 5.2% in 2019. The continued growth was primarily due to increases in foreign sales.

Service

The service sector represented 39.5%, 39.6%, 41.0% and 41.5% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles

The wholesale and retail trade sub-sector represented 8.8%, 9.3%, 10.5% and 8.5% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The wholesale and retail trade sub-sector recorded growth of 6.1% in the nine months ended September 30, 2023, compared to growth of 13.3% in the corresponding period of the prior year. The growth was primarily due to increased activities in the sub-sector after the COVID-19 pandemic.

The wholesale and retail trade sub-sector recorded growth of 10.1% in 2022, compared to growth of 5.8% in the prior year. The growth was primarily due to increased imports of goods.

The wholesale and retail trade sub-sector recorded growth of 5.8% in 2021, compared to a contraction of 12.5% in 2020. The growth was primarily due to higher wholesale and retail sales revenue.

The wholesale and retail trade sub-sector recorded a contraction of 12.5% in 2020, compared to growth of 10.9% in 2019. The contraction was primarily due to lower wholesale and retail sales revenue.

Transportation and Storage

The transportation and storage sub-sector represented 3.7%, 3.7%, 4.7% and 6.9% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

In the nine months ended September 30, 2023, the transportation and storage sub-sector recorded growth of 58.2%, compared to growth of 2.6% in the corresponding period of the prior year, mainly due to the recovery of transportation and storage activities after the COVID-19 pandemic

In 2022, the transportation and storage sub-sector recorded growth of 9.2%, compared to a contraction of 7.4% in 2021, mainly due to higher transportation volume from road freight.

In 2021, the transportation and storage sub-sector recorded a contraction of 7.4%, compared to a contraction of 18.2% in 2020, mainly due to lower transportation volume from road freight.

In 2020, the transportation and storage sub-sector recorded a contraction of 18.2%, compared to growth of 4.4% in 2020, as all types of transportation revenue decreased in line with the effects of the COVID-19 pandemic.

Information and Communication

The information and communication sector represented 1.8%, 2.1%, 2.0% and 2.0% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The information and communication sub-sector recorded growth of 16.3% in the nine months ended September 30, 2023, compared to growth of 8.5% in the corresponding period of the prior year. The growth was primarily due to increased activities as a result of the recovery after the COVID-19 pandemic.

The information and communication sub-sector recorded growth of 6.6% in 2022, compared to growth of 20.5% in the corresponding period of the prior year. The growth was primarily due to growth of the electronics sub-sector.

The information and communication sub-sector recorded growth of 20.5% in 2021, compared to growth of 5.4% in the prior year, primarily due to the growth of telecommunication sub-sector.

The information and communication sub-sector recorded growth of 5.4% in 2020, compared to growth of 12.0% 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.

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. Despite these challenges, recent global trends in the mining industry, such as growing demand for copper which is in line with a "super cycle" driven by electrification generally and in particular the rapid development of electric vehicles and renewable technologies, have the potential to drive Mongolia's mining industry. Recent Government initiatives related to infrastructure development, particularly policy statements for national railroad expansion, are also 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.

With the New Revival Policy approved by Parliament in 2021, the Government aims to increase the capacity of border ports by three folds and the energy sources by two folds, as well as substantially increase the commodity export volumes.

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, may 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. Production from the underground operations successfully commenced on March 13, 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 held a 34.0% equity stake through Erdenes Oyu Tolgoi LLC, and Turquoise Hill (formerly known as Ivanhoe Mines, then a majority-owned subsidiary of Rio Tinto) held a 66.0% equity interest. Oyu Tolgoi LLC's investment in the project was funded by loans from Rio Tinto. Following Rio Tinto's acquisition of the approximately 49% of the issued and outstanding shares of Turquoise Hill that Rio Tinto did not own on December 16, 2022, Rio Tinto holds a 66.0% direct interest in the Oyu Tolgoi, and the Government continues to hold the remaining 34.0% equity interest through Oyu Tolgoi LLC. 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 Oyu Tolgoi 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. The amount of tax, interest and penalties claimed to be payable was subsequently reduced from approximately US$127.0 million to approximately US$30.0 million after Oyu Tolgoi LLC appealed the assessment and, in May 2015, 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 and, on December 16, 2015, a US$4.4 billion project financing facility agreement for Oyu Tolgoi's Phase II was signed. 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 production date guidance noted in a 2016 feasibility study of 21 to 29 months.

In November 2022, Rio Tinto, Turquoise Hill and Erdenes Oyu Tolgoi LLC reached a comprehensive agreement on Oyu Tolgoi to address the remaining funding requirements for the project's underground operations, with key terms as follows:

- Rio Tinto waived Erdenes Oyu Tolgoi LLC's obligations under a loan that Oyu Tolgoi LLC had used to fund its equity contribution in the project, which had a balance of US$2.4 billion (including accrued interest);

- Rescheduled principal repayments due from Oyu Tolgoi LLC to Oyu Tolgoi to reduce payments by up to US$1.7 billion under a project finance loan from Oyu Tolgoi LLC;

- Oyu Tolgoi is to raise up to US$500 million of senior supplemental debt from selected international financial institutions;

- Rio Tinto is to provide a co-lending facility to Oyu Tolgoi of up to US$750 million;

- Turquoise Hill to make up to US$750 million in prepayments of equity contributions to Oyu Tolgoi.

These agreements will increase the portion of equity financing used to fund the underground operations, which is expected to reduce the Government's ultimate interest burden during their ramp-up phase.

Rio Tinto is obliged to secure domestically-sourced power for Oyu Tolgoi by June 30, 2023 under the 2009 Investment Agreement 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. The construction schedule for the TTPP Project is planned to be 38 months, excluding the period of preparations required for matters such as contractor selection and contract signing. Work on the TTPP is expected to start in first half of 2024. In May 2023, the Government and Oyu Tolgoi LLC extended the existing power import arrangements with the Inner Mongolia Power International Cooperation Co., Ltd., a state-owned enterprise in China.

On March 13, 2023, the Oyu Tolgoi copper mine announced that it had commenced underground production. The Prime Minister of Mongolia Oyun-Erdene and Rio Tinto Chief Executive Jakob Stausholm celebrated the commencement at Oyu Tolgoi in the Gobi Desert. Oyu Tolgoi is expected to produce around 500,000 metric tons of copper per year on average from 2028 to 2036 from its combined open pit and underground operations, enough to produce around 6 million electric vehicles annually, and an average of around 290,000 metric tons of copper per year over the mine's reserve life of around 30 years. The copper content of the ore produced by Oyu Tolgoi is expected to increase, with the copper head grade produced expected to increase to 1.24% in 2028 from 0.42% in 2022. Revenue generated from Oyu Tolgoi is expected to increase, and the unit cost of copper is expected to decrease as a result of the project commencing underground operations. According to Rio Tinto, Oyu Tolgoi is expected to increase the export revenue of Mongolia by 16.7% and have a 1.4x multiplier effect on the Mongolian economy. The Government expects to start receiving dividends in 2037.

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 being developed by Erdenes Tavan Tolgoi JSC, a government-owned company. East Tsankhi is estimated to have approximately 1.3 billion tons of coal resources. On August 23, 2023, a total of 135.0 thousand tons of coal were transported by 1,060 trucks, which was the highest volume of daily coal shipments since the company was established. In the nine months ended September 30, 2023, Erdenes Tavan Tolgoi produced a total of 19.4 million tons of coal and 20.8 million tons worth US$3,115.0 million were exported. The Government collected MNT2.2 trillion (US$633.0 million) as taxes. In 2022, Erdenes Tavan Tolgoi produced a total of 11.3 million tons of coal and 13.5 million tons worth US$2,958.0 million were exported. The Government collected MNT 1.0 trillion (US$318.0 million) as taxes. In 2021, Erdenes Tavan Tolgoi produced a total of 8.6 million tons of coal and 6.3 million tons worth US$396.1 million were exported. The Government collected US$137.8 million as taxes. In 2020, Erdenes Tavan Tolgoi produced a total of 13.0 million tons of coal worth US$172.0; all of this was exported. The Government collected US$11.9 million as taxes.

As the supporting infrastructure for the Tavan Tolgoi, the Tavan Tolgoi–Gashuun Sukhait railway project was approved on August 9, 2017, and the railway commenced operation on September 9, 2022. The project was 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.

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–Gashuun Sukhait, Tavan Tolgoi–Zuunbayan, Tavan Tolgoi–Oyutolgoi–Khangi, Tavan Tolgoi–Baruunnaran, railways in the direction of Tavan Tolgoi–Gashuun Sukhait 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. In December 2022, the plan for the initial public offering of Erdenes Tavan Tolgoi JSC was submitted to Parliament; the plan is pending Parliamentary discussion. As of the date of this Offering Memorandum, the roads in the direction of Tavan Tolgoi–Gashuun Sukhait and Tavan Tolgoi–Zuunbayan and the railways in the direction of Tavan Tolgoi–Gashuun Sukhait and Tavan Tolgoi–Zuunbayan have commenced operation, while the roads in the direction of Tavan Tolgoi–Oyutolgoi–Khangi and Tavan Tolgoi–Baruunnaran are under construction with most of the work completed.

Following the allegations of coal theft and to ensure a more transparent and fair coal trading process, on December 14, 2022, the Government approved the "procedure on open online trade of coal for export" to govern the trading between Erdenes Tavan Tolgoi JSC and coal exporting companies at the transport terminal of Gashuun Sukhait port. As approved by Parliament, the Commodity Exchange will organize online open trading of coal exports, carry out payments and conduct coal quality checks. In a further step to enhance transparency, since July 1, 2023 and the effectiveness of the Mining Products Exchange Law, mining products can be traded through the Mongolian Stock Exchange. These trading arrangements are expected to be extended to cover commodity export by all state-owned enterprises starting from January 1, 2024. The Financial Regulatory Commission of Mongolia will supervise all relevant aspects of the arrangements. For more details of the alleged coal theft incident, see "*Summary—Recent Development—Discrepancies in Mongolia's Coal Exports to China*" and "*Risk Factors—Risks Relating to Mongolia—Mongolia has experienced and may again experience political and social instability*."

In 2020, Erdenes Tavan Tolgoi JSC distributed dividends to its 2.5 million Mongolian shareholders, comprising all Mongolian citizens born before April 11, 2012. Based on improved performance in 2019, the company's dividend per share was MNT90 per share. The company distributed these dividends on September 2, 2020. The company did not distribute dividends in 2021, 2022 or 2023.

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 special royalty of up to 5.0% of the sale of minerals 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 special royalty in order to obtain the Government's equity stake in the strategic deposit.

As of September 30, 2023, 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 September 30, 2023:

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

(1) Australasian Joint Ore Reserves Committee.
(2) ResCap, Mongolia 101, January 2011.
(3) Ministry of Mining and Heavy Industry.

A general environmental impact assessment is performed prior to granting any mining license, and a detailed environmental impact assessment is performed by government-accredited companies prior to commencement of operations. Non-compliance with these environmental impact assessments or related rehabilitation requirements would result in license cancellation and/or criminal sanctions.

Mineral Resources

The following table sets forth the estimated reserves of the primary mineral resources as of December 31, 2022:

	Estimated reserves
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

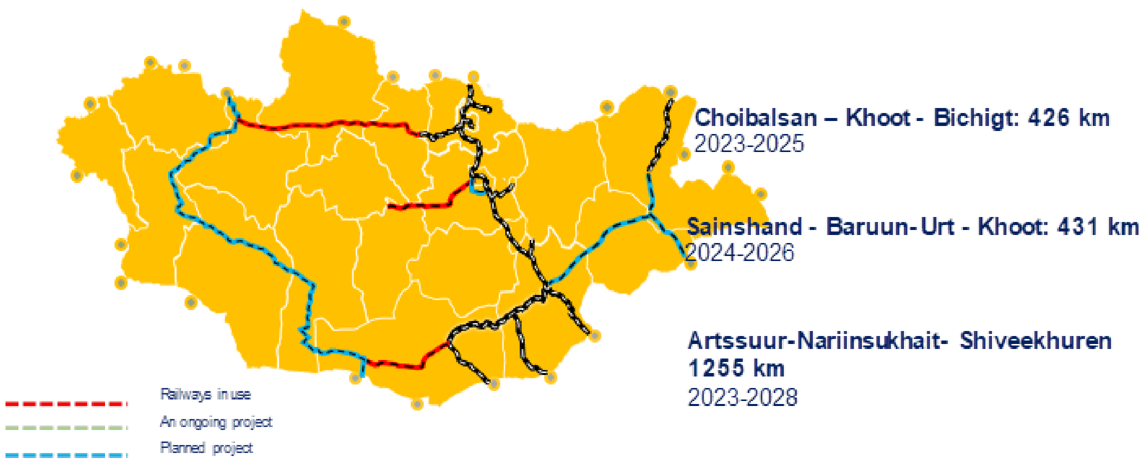
In recent years, the Government has increased capital spending to upgrade underdeveloped infrastructure in Mongolia, including the development of railways, roads, airports, housing, electricity, water systems and telecommunications. As of early 2023, active cellular mobile connections in Mongolia were approximately 4.8 million. Investments in infrastructure were 21.9% of total expenditure and 8.0% of GDP in 2020, 21.4% of total expenditure and 7.7% of GDP in 2021, 20.9% of total expenditure and 7.1% of GDP in 2022.

Railways

The development of railway infrastructure remains one of the most pressing issues in the Mongolian economy. To maximize revenue generation from its mineral resources, Mongolia has been progressively expanding its railway network and capacity and increasing in border crossings with Russia and China.

The Government, through the Ministry of Road and Transport Development, built the 267 km Tavan Tolgoi–Gashuun Sukhait railway (connecting to the Chinese boarder), which commenced operation in September 2022, the 227 km Zuunbayan–Khangi railway, which commenced operation in November 2022, and the 414.6 km of Tavan Tolgoi–Zuunbayan railway (connecting to the main trans-Mongolian railway line), which commenced operation in November 2022. These three 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. The Tavan Tolgoi–Zuunbayan railway was the first major railway constructed entirely with domestic resources and, when it officially commences operations, it is expected to be capable of transporting 15 million tons of cargo per annum at costs that are significantly lower than road transport. In addition to these two projects, the construction of the Sainshand–Baruun–Urt–Khuut, Khuut–Choibalsan, and Nariinsukhait–Shivee Khuren 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. The construction of a 7.1 km railway connecting the Mongolian port Shivee Khuren with the Chinese port Ceke commenced on May 27, 2023. Connecting Shivee Khuren-Ceke ports by railway is of strategic significance because it is a part of the western vertical axis railway of Mongolia in route of Shivee Khuren-Nariinsukhait-Artssuuri, which will be the cross-border railway of the "Economic Corridor" of Mongolia, the Russian Federation, and the People's Republic of China. In addition, in August 2023, Ulaanbaatar-Zamin-Uud-Erlian passenger train service was restored after three years of suspension.

The map below illustrates Mongolia's railway lines that were in use, under construction and planned as of November 8, 2023.



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–Darkhan Road

European Bank for Reconstruction and Development 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. On October 30, 2022, the main works of the first phase of the project, including bridges, drainage pipes, flood prevention pipes, artificial structures, dam, foundation, and base pavement, were completed and traffic was permitted. On March 16, 2023, the Government signed a grant agreement in the total amount of €22.5 million with the European Bank for Reconstruction and Development, to build two additional lanes of the road, and the funding necessary for the construction of the 204-kilometer Ulaanbaatar-Darkhan road which is expected to resolve funding issues. As of September 30, 2023, 90% of the total construction work had been completed. The road is expected to open for traffic in four lanes by November 10, 2023.

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. The new airport, New Ulaanbaatar International Airport, commenced operation on July 4, 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 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. Revenue from flyover rights increased by 48% in 2021 to MNT122.9 billion compared to MNT75.0 billion in 2020 due to an increase in flight numbers following the recovery from the lower flight numbers during the COVID-19 pandemic. Revenue from flyover rights decreased by 87% in 2022 to MNT16.0 billion compared to MNT122.9 billion in 2021 due to the outbreak of Russia-Ukraine war, which led to various countries banning their planes from flying over Russian territory.

Housing

One of the Government's prime objectives is to provide affordable quality housing for its citizens across the country. As of December 31, 2022, approximately 38% of the Mongolian population and 22% 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 the 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, which achieved significant results in reducing air pollution. In addition, the same company also applied methods to reduce the sulfur content of the coal briquettes. The Government believes that the city's air pollution has decreased substantially as a result of this change. For example, according to the Department of Meteorological and Environmental Analysis, in October 2022, the level of air pollution in Ulaanbaatar, which did not exceed the Mongolian national standard level, was 33 $\mu g/m^3$ for PM2.5 (approximately 6% lower than October 2021), 92 $\mu g/m^3$ for PM10 (approximately 11% lower than October 2021), and 7 $\mu g/m^3$ for nitrogen dioxide (approximately 17% lower than October 2021). However, sulfuric gas was 47 $\mu g/m^3$, which was approximately 15% higher than October 2021.

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 in 2010, 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 Government and 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. A total of 139,000 households-apartments were built under the 100,000 Housing Project from 2010 to 2019, and a total of 56,000 households-apartments were built under the 150,000 households-apartments from 2019 to 2022. The construction of the remaining households-apartments under the 150,000 households-apartments is expected to be completed by 2030.

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. For subsidized housing loans, the Government is working to establish the National Housing Corporation. It plans to focus more on the local loans from 2024. Since the beginning of the program on October 12, 2023, a total of 116,400 citizens had been granted subsidized housing loans of MNT7.4 trillion.

As part of the Government's efforts to reduce air pollution in Ulaanbaatar, the Solongo 1 and Solongo 2 rental housing projects are 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. The preliminary drawings for the construction of these projects were received in May, 2022 and confirmed in July 2022. In accordance with the relevant loan agreement, the tender document for the selection of the general contractor of the projects was prepared by the Export-Import Bank of the Republic of Korea. In September 2022, following the receipt of the final approval for bidding, all preparations works related to the selection of general contractor were completed. In August 2023, the Government signed a contract with Kolon Global Corporation LLC of the Republic of Korea, and construction of the Solongo 1 and Solongo 2 rental housing commenced.

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 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; and

- build a 160 MW large-scale battery energy storage system.

In 2022, Mongolia's total electricity consumption was 10,340.1 million kWh, of which 8,178.6 million kWh, or 79.1%, was generated domestically. Of this, 90.8% was generated by thermal power plants, 9.2% by solar, wind and hydroelectric plants, and 0.01% by diesel plants.

The Government is committed to increasing the share of renewables in the country's energy generating capacity, with a goal of 34% by 2030, an increase from 8.2%, 19.3% and 24% in 2014, 2019 and 2023, respectively. Of Mongolia's current renewable energy capacity, 8.2% is hydropower, 23.9% is solar and 67.9% is wind. Mongolia's current renewable energy capacity includes 17 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. Furthermore, Mongolia is working with China to implement the Erdeneburen hydropower plant project. Upon its completion, the project is expected to produce 366 million kWh of energy per year with an installed capacity of 90 MW and meet the energy needs of five western provinces. Construction on the project began in April 2022, with operations expected to commence in 2027. The total investment amount is US$275 million, and the Government is working with the Export-Import Bank of China on a loan agreement for the project. In line with this project, Mongolia is working to implement the Erdeneburen-Myngad powerline project to connect the western power system to the central system financed by the ADB. Mongolia is also considering research and development works for nuclear power and green hydrogen projects.

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, 2.3% in 2021, and increased to 6.8% in 2022.

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 90.9%, 89.8%, and 90.8% of the country's power in 2020, 2021 and 2022, 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. In May 2023, the Government and Oyu Tolgoi LLC extended the existing power import arrangements with the Inner Mongolia Power International Cooperation Co., Ltd. , a state-owned enterprise in China.

The Government has completed 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 the Gobi desert. 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 Government is also considering building a 450 MW coal power plant and is considering financing options for the plant. 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. The construction schedule for the project is planned to be 38 months, excluding the period of preparations required for matters such as contractor selection and contract signing.

Furthermore, Mongolia has been working with China to implement the Erdeneburen hydropower plant project, which, once completed, is expected to produce 366 million kWh of energy per year with an installed capacity of 90 MW and meet the energy needs of five western provinces of Mongolia. To facilitate this project, Mongolia is also working to implement the Erdeneburen-Myngad-Uliastai powerline project to connect the western power system to the central power system.

In 2022, Mongolia imported 20.9% of its annual electricity resources, of which approximately 67.5% were from China and 32.5% 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.

A 10MW solar power plant located in Murun Soum of Khuvsgul Aimag, in the northernmost province of Mongolia, was completed in October 2023. The Murun 10MW solar power plant is a subproject of the Upscaling Renewable Energy Sector Project, which was funded by a US$14.6 million grant from the World Bank's Strategic Climate Fund, US$6 million from Japan Fund for the Joint Crediting Mechanism, and a loan of US$40 million from the ADB.

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 water quality.

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 freshwater 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 being built in Ulaanbaatar, funded by a US$249.6 million concessional loan provided by China's Export-Import Bank. The project commencement ceremony was held during Chinese Foreign Minister Wang Yi's visit to Mongolia in August 2018. The project commenced construction in 2019 and is expected to be completed in 2023. Once this wastewater treatment plant commences operation, it is estimated that 25% of the total wastewater will be reused and supplied to the No.3 and No.4 power plants of Ulaanbaatar, saving the use of fresh water.

A new construction and demolition waste recycling plant and waste landfill commenced construction in Ulaanbaatar in April 2023. The project, which is being implemented to improve the waste management and recycling practices of Ulaanbaatar city, is financed by a loan from EBRD. The new plant will include the capacity to recycle 150 thousand metric tons of solid waste a month. The construction of this demolition waste recycling plant and waste landfill is expected to be completed in 2024.

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 nine months ended September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023[1]**
			(by thousands persons)			
Labor force	1,358.6	1,273.9	1,250.6	1,225.4	1,265.2	1,259.4
Unemployment rate (%)	7.8	10.0	7.0	7.8	6.7	5.2
Paid employment:						
Agriculture	334.1	290.2	276.5	291.7	294.0	295.2
Wholesale and retail trade	211.2	160.4	166.6	149.2	146.2	160.4
Education	98.7	96.1	110.7	99.1	104.4	119.9
Transportation and storage	73.6	61.1	66.5	57.9	68.2	73.3
Manufacturing	100.8	90.4	89.7	84.6	112.7	104.8

Public administration and defense	76.2	86.0	83.4	85.6	82.1	66.5
Construction	76.6	68.8	77.3	82.2	77.5	89.4
Human health and social work activities	49.5	44.4	60.2	46.8	50.0	46.9
Mining and quarrying	57.7	57.9	51.6	56.0	60.3	62.2
Accommodation and food service activities	37.5	36.3	30.0	37.6	32.0	36.5
Other service activities	23.4	24.5	29.8	24.3	34.2	31.2
Financial and insurance	25.7	24.3	29.4	26.7	22.6	19.4
Other	88.1	105.8	91.3	84.0	96.6	87.6
Total	**1,253.0**	**1,146.2**	**1,162.9**	**1,125.6**	**1,180.5**	1,193.3

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to further adjustments.

In the first nine months of 2023, Mongolia's unemployment rate was 5.2%, lower than the 6.7% recorded in 2022. In 2022, the unemployment rate was 6.7%, lower than the 7.8% recorded in 2021. In 2021, the unemployment rate was 7.8%, higher than the 7.0% recorded in 2020. The increase was primarily due to an excess of labor supply over demand as a result of decrease in employment opportunities. In 2020, the unemployment rate was 7.0%, compared to 10.0% in 2019; 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. Overseas workers also make an increasingly important contribution to the Mongolian economy. For example, remittances amounted to 2.4% and 3.1% of Mongolia's GDP in 2022 and 2021, respectively, compared to 1.5% in 2015.

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 24.9% of total employment as of December 31, 2022, 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

Effective from January 1, 2023, the national monthly minimum wage was MNT550,000 or approximately US$180.1. 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,				
	2018	**2019**	**2020**	**2021**	**2022**
			(MNT thousands)		
National average monthly wages	1,002.9	1,124.3	1,220.6	1,279.4	1,503.8

Source: National Statistical Office of Mongolia.

The World Economic Forum's 2023 Global Gender Gap Index ranked Mongolia the 80th 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. On July 7, 2023, Parliament adopted the General Social Insurance Law which will replace the Law on Social Insurance, effective from January 1, 2024.

On December 24, 2020, the General Taxation Law was amended to grant authority to cities and towns to determine the tax amount for certain taxation following the 2019 amendments to the Constitution and the approval of the revised Law on Administrative and Territorial Units and their Governance. The amendment became effective from January 1, 2022.

On November 13, 2020, Parliament adopted the Law on Livestock Tax. The law entered into force on January 1, 2021. Under this law, the relevant soum or 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 taxes and VAT.

In 2019, overall tax revenue increased by 19.6% to MNT9,813.2 billion (US$3.7 billion). In 2020, the overall tax revenue decreased by 13.4% to MNT8,501.8 billion (US$3.05 billion). In 2021, the overall tax revenue increased by 32.5% to MNT11,262.8 billion (US$4.0 billion). In 2022, the overall tax revenue increased by 38.2% to MNT15,568.3 billion (US$4.50 billion). In the nine months ended September 30, 2023, the tax revenue amounted to MNT15,819.0 billion (US$4.57 billion).

Corporate Income Tax

Under the Corporate Income Tax Law, taxpayers are categorized as resident taxpayers 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 or engaging in energy generation-related activities.

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 AML/CFT Law 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 Taxation Law also 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, 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; (iii) will require over three years of construction and (iv) involves in value added processing and exports its main products.

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

The Personal Income Tax Law categorizes individual taxpayers as resident taxpayers and non-resident taxpayers. A 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, annual taxable income from salaries, wages, employment income, and indirect income is taxed at 10% on annual income of MNT120,000,000, and MNT 12,000,000 plus 15% on income exceeding MNT 120,000,000 and below MNT 180,000,000, and MNT 21,000,000 plus 20% on income exceeding MNT 180,000,000.

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, by-products of oil production, kerosene 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 2022, the Excise Tax Law was amended to increase the excise tax rate on import, production or sale of all types of alcohol in certain stages starting from January 1, 2023 until January 1, 2029.

COVID-19-related Tax Measures

In response to the COVID-19 pandemic, the Government undertook 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 were derived from leasing of real property for commercial, educational, and service purposes were eligible to enjoy tax deductions if rents were discounted from February 1, 2020 to July 1, 2021. From February 1, 2020 to January 1, 2022, customs fees and VAT were not 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 were exempted 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 were exempted from penalties. These COVID-19-related tax measures ended on July 1, 2021, and are no longer effective.

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, 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. See *"—Infrastructure—Housing*" for details on the Government's initiatives and efforts in improving air quality.

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.

Mongolian development policies have set long-term sustainable development goals. 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: 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 Government evaluates the macroeconomic impact of plans and projects under the Vision-2050 framework 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.

In line with this policy, on October 4, 2021, Mongolian President Khurelsukh initiated the national One Billion Trees Movement, with goals to plant one billion trees by 2030. As part of the movement, the government of Mongolia aims to complete forestation and rehabilitation related works in approximately 12.9 hectares of area in Ulaanbaatar, and the planting of 120 million trees, including 4.5 million trees to be planted in 3,500 hectares of forested areas under varying degrees of protection, and 65 million trees in 3,750 hectares of green space. To support this movement, a fund was established to create a structure and system to provide sustainable financing for forestation, tree planting, and other environmental activities. The fund will be financed through donations from banks, non-bank financial financial institutions, business organizations, and individuals. The fund's board will consider and approve projects and programs to support. The board consists of representative of the Mongolian Bankers Association, the Association of Non-Bank Financial Institutions and other donors, as well as other independent members. In addition, the National Climate Committee was established in 2021 and it has developed an action plan for implementation. As of October 31, 2023, as part of the One Billion Trees Movement, a total of 41.5 million trees had been planted. Mongolia has sufficient seedlings and saplings to continue with the project.

In line with Mongolia's sustainable development and climate goals, the National Sustainable Finance Roadmap was approved in 2022 as part of the consensus on an integrated, multifaceted, and strategic approach to developing a sustainable financial system by 2030. Within the framework, commercial banks have set a goal to increase their green loan portfolio to 10% of the total loan portfolio, and non-banking financial sectors to increase their green loan portfolio to 5%.

In June 2023, during the Sustainable Finance Week – 2023 forum organized in Ulaanbaatar, Mongolia approved the SDG Finance Taxonomy, which enhances and extends the Mongolia Green Taxonomy by including activities and eligible assets in socially-oriented sectors like education, health, information technology, affordable housing, and infrastructure. The Mongolia Green Taxonomy is a structured framework that has been used since 2019 for activities that contribute to resource conservation and pollution prevention

In partnership with the Green Climate Fund, a fund established within the framework of the United Nations Framework Convention on Climate Change, and the private sector for creating a "national system of green financing", the Government is making concerted efforts to create the Mongolia Green Finance Corporation, which will serve as the focal point for scaling up domestic investment in climate action. This initiative seeks to implement thermal insulation for housing, enhance energy efficiency for businesses, and facilitate mortgages for green affordable housing through local partner financial institutions.

Under the 2021 budget, MNT85.1 billion (US$27.2 million) or 0.5% of the total budget, was devoted to air pollution reduction measures. This was lower than the amount allocated under the 2020 budget, which was MNT137.6 billion (US$48.2 million), or 1.2%, of the total budget, primarily because the Government has established a separate fund of MNT426.0 billion under the Municipality of Ulaanbaatar to address issues related to air pollution and traffic. Under the 2022 budget, MNT85.1 billion (US$25.4 million) or 0.5% of the total budget, was allocated to air pollution reduction. Furthermore, under the 2023 budget, MNT87.2 billion (US$26.1 million) or 0.4% of the total budget, was allocated to air pollution reduction. Under the 2024 budget, MNT93.6 billion (US$27.1 million) or 0.3% of the total budget, was allocated to air pollution reduction.

Foreign Trade

In 2022, Mongolia's major trading partners were China, Russia, Japan and the Republic of Korea. Mongolia is currently negotiating free trade agreements with China, the Republic of Korea and the EU, Economic Partnership Agreement with the Republic of Korea, and Geographical Indications agreement with EU. In November 2022, Mongolia renewed the Medium-term program of the Mongolia-Japan Strategic Partnership and established a 10-year Action Program of the "Special Strategic Partnership for Peace and Prosperity" between Mongolia and Japan with aims to deepen cooperation in politics, trade, investment, human-centered development, and mutual exchange of citizens. 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 nine months ended September 30, 2023, foreign trade resulted in a total external trade turnover of US$18,051.7 million, of which exports represented US$11,296.2 million and imports represented US$6,755.5 million. Total trade turnover increased by US$2,771.1 million (18.1%) compared to the same period of the previous year, of which exports increased by US$2,372.0 million (26.6%) and imports increased by US$399.1 million (6.3%). The increase in exports by US$2,372.0 million compared to the same period in the previous year was mainly due to a 28.0% increase in export of mineral products. Imports increased by US$399.1 million compared to the same period of the previous year, mainly due to a 34.5% increase in imports of machinery, equipment, electric appliances, recorders, TV, sets and spare parts.

In 2022, foreign trade resulted in a total external trade turnover of US$21,243.0 million, of which exports represented US$12,538.6 million and imports represented US$8,704.4 million. Total trade turnover increased by US$5,156.4 million (32.1%) compared to the previous year, of which exports increased by US$3,297.5 million (35.7%) and imports increased by US$1,858.9 million (27.2%). The increase in exports was mainly due to a 40.4% increase in export of mineral products. The increase in imports was mainly due to a 46.4% increase in imports of mineral products and a 38.1% increase in imports of auto, air and water transport vehicles and their spare parts.

In 2021, foreign trade resulted in a total external trade turnover of US$16,095.8 million, of which exports represented US$9,247.1 million and imports represented US$6,848.6 million. Total trade turnover increased by US$3,220.6 million (25.0%) compared to the previous year, of which exports increased by US$1,670.8 million (22.1%) and imports increased by US$1,549.7 million (29.2%). The increase in exports by US$1,670.8 million compared to the previous year was mainly due to a 43.0% increase in export of mineral product. Imports increased by US$1,549.7 million compared to the previous year, mainly due to a 36.5% increase in import of diesel fuel.

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.

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 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. Gashuun Sukhait'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.

As part of its effort to develop the agricultural sector under the New Revival Policy, Vision-2050 and Government Action Plan 2020-2024, the Government has been working to expand Mongolia's food processing industry. The Government has introduced a one-stop electronic system to improve the coordination between government and non-government organizations and reduce the time required to issue export permits. In addition, to further increase the export of meat and meat products in Central Asia and the Middle East, the Government has adopted a halal standard for animal slaughtering and established a quarantined healthy zone with a veterinary medial regime in accordance with international standards. As a result, 53,200 metric tons of meat and meat products were exported in the first nine months of 2023, an over 200% increase as compared to 2022.

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 nine months ended September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023[(1)]**
			(US$ millions)			
China	6,542.8	6,789.8	5,493.6	7,638.6	10,574.7	10,315.0
Switzerland	0.7	75.0	1,681.6	869.7	1,030.7	488.2
Singapore	30.0	154.6	151.3	254.1	346.0	40.0
Great Britain	172.9	291.1	84.1	10.1	12.4	5.8
Russia	85.9	68.1	57.3	112.8	93.4	80.0
Other	179.4	241.2	108.6	355.8	481.4	367.2
Total	**7,011.8**	**7,619.8**	**7,576.3**	**9,241.1**	**12,538.6**	**11,296.2**

Source: National Statistical Office of Mongolia.
(1) Provisional figures subject to adjustment.

In the nine months ended September 30, 2023, the principal country of destination for exports was China, representing 91.3% of Mongolia's total exports. In 2022, the principal destination for exports was China, representing 84.3% 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 nine months ended September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023[(1)]**
			(US$ millions)			
China	1,994.8	2,060.8	1,910.2	2,520.0	3,072.2	2,734.9
Russia	1,710.3	1,729.9	1,400.0	1,955.2	2,611.4	1,780.5

Japan	561.0	585.5	406.7	453.2	674.3	520.7
United States	211.4	289.6	245.4	213.4	266.1	223.3
Republic of Korea	262.4	267.0	235.8	308.7	424.6	292.0
Germany	168.7	188.9	184.8	223.3	182.8	159.3
Others	966.4	1,005.9	916.0	1171.7	1,473.0	1,044.8
Total	**5,875.0**	**6,127.4**	**5,298.9**	**6,845.5**	**8,704.4**	**6,755.5**

Source: National Statistical Office of Mongolia.

(1) Provisional figures subject to adjustment.

In the nine months ended September 30, 2023, the principal origin for imports was China, representing 40.5% of Mongolia's total imports. In 2022, the two principal origins for imports were (i) China, which accounted for 35.3% of Mongolia's total imports, and (ii) Russia, which accounted for 30.0% 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 the nine months ended September 30, 2023 was US$4,540.7 million, representing a 76.8% increase over the US$2,567.8 million, recorded in the corresponding period in 2022. The higher trade balance surplus in the nine months ended September 30, 2023 was primarily due to a 28.0% increase in exports of mineral products.

Mongolia's trade balance surplus for 2022 was US$3,834.2 million, representing a 60.0% increase over the US$2,395.7 million, recorded in 2021. The higher trade balance surplus in 2022 was primarily due to a 40.4% increase in exports of mineral products.

Mongolia's trade balance surplus for 2021 was US$2,395.7 million, representing a 5.3% increase over the US$2,277.4 million, recorded in 2020. The higher trade balance surplus in 2021 was primarily due to the increase of US$1,644.8 million in exports compared to the previous year, mainly comprising the increase of US$3,004.2 million in coal exports.

Mongolia's trade balance surplus for 2020 was US$2,277.4 million, representing a 52.6% increase over the US$1,492.1 million, recorded in 2019. The higher trade balance surplus in 2020 was primarily due to the decrease of US$828.6 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.

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

	Exports	Imports	Balance of Trade	Exports as Percentage of Imports
	(US$ millions)			
2018	7,011.8	5,875.0	1,136.7	119.3
2019	7,619.6	6,127.5	1,492.1	124.4
2020	7,576.3	5,298.9	2,277.4	143.0
2021	9,241.1	6,845.5	2,395.7	135.0
2022	12,538.6	8,704.4	3,834.2	144.0
2023(1)	11,296.2	6,755.5	4,540.7	167.2

Source: National Statistical Office of Mongolia.

(1) Provisional figures for the nine months ended September 30, 2023, 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 nine months ended September 30,
	2018	2019	2020	2021	2022	2023[1]
			(US$ millions)			
Copper	2,012.2	1,795.9	1,778.0	2,899.9	2,734.8	1,999.8
Coal	2,802.5	3,078.8	2,126.6	2,779.5	6,503.2	6,518.1
Crude oil	392.0	366.7	150.9	273.4	241.8	271.0
Iron ore	342.2	576.6	639.7	952.2	391.0	323.6
Gold	144.5	418.4	1,787.7	1,004.5	1,127.4	560.8

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.

2024 Budget

Mongolia's 2024 budget was approved by Parliament on November 10, 2023. In the 2024 budget, projected total consolidated revenue for 2024 is MNT25.9 trillion (US$7.5 billion), or 34.9% of expected GDP. Total budgeted expenditures for 2024 are approximately MNT27.4 trillion (US$7.9 billion), or 37.6% of expected GDP. The structural budget deficit is estimated to be approximately MNT1.5 trillion (US$0.4 billion), or approximately 2.0% of expected GDP, which is lower than the 2.8% ceiling in the Fiscal Stability Law. Mongolia's budget policy for 2024 aims to support processing and concentration industries through tax policy, development of urban and rural area, improve the investment environment and support the securities markets.

2023 Budget

Mongolia's 2023 budget was approved by Parliament on November 12, 2022. In the 2023 budget, projected total consolidated revenue is MNT19.0 trillion (US$5.7 billion), or 34.9% of expected GDP. Total budgeted expenditures are approximately MNT20.4 trillion (US$6.1 billion), or 37.6% of expected GDP. The structural budget deficit is estimated to be approximately MNT1.4 trillion (US$0.4 billion), or approximately 2.9% of expected GDP, which is lower than the 3.6% stated in the Fiscal Stability Law. Mongolia's budget policy for 2023 aims to implement prudent spending, support the New Revival Policy, reduce import pressure, and stabilize the macro-economy through optimal distribution of resources.

The 2023 supplementary budget was passed by Parliament in June 2023. The major component of the supplemental budget was the increase in mining revenue due to the increase in coal exports. The 2023 supplementary budget also increased wage, benefit, and pension expenditures to protect household income. The total revenue increase was MNT2.1 billion (US$0.6 million) and total expenditure increase was MNT1.9 billion (US$0.5 million). Out of the total expenditure increase, the recurrent expense increase accounted for approximately MNT1.7 billion (US$0.5 million). This recurrent expense increase reflected the 10% increase in wage, 10% increase in pension and the elimination of pension variance.

2022 Budget and Actual Results

The 2022 budget was approved by Parliament on November 3, 2021, and an amendment to the 2022 Budget Law approved on April 29, 2022. In the 2022 budget, total consolidated revenue was projected to be MNT15.5 trillion (US$4.6 billion), or 33.3% of expected GDP. Total budgeted expenditures were approximately MNT17.9 trillion (US$5.4 billion), or 38.4% of expected GDP. The structural budget deficit was estimated to be approximately MNT2.3 trillion (US$0.7 billion), or approximately 5.1% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law. The 2022 Budget aimed to recover the economy, implement governance, structural changes, and dividend policy reforms, prudent spending for all government organizations, build efficient civil servants in public organizations, and implement activities aimed at citizens and implementing infrastructure projects and resolving traffic in Ulaanbaatar city.

Total actual revenue for 2022 was MNT17.1 trillion (US$4.9 billion), or 110.3% of budgeted revenue. Total expenditures for 2022 were MNT18.2 trillion (US$5.3 billion), which was 101.7% of budgeted expenditure. The overall budget deficit in 2022 was MNT1.0 trillion (US$0.3 billion). Total revenue and grants increased by 34.7% compared to 2021, and total current expenditures increased by 16.2% compared to 2021.

2021 Budget and Actual Results

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.

Total actual revenue for 2021 was MNT12.7 trillion (US$4.6 billion), or 104.0% of budgeted revenue. Total expenditures for 2021 were MNT15.6 trillion (US$5.5 billion), which was 96.3% of budgeted expenditure. The overall budget deficit in 2021 was MNT2.9 trillion (US$1.0 billion). Total revenue and grants increased by 37.0% compared to 2020, and total current expenditures increased by 12.2% compared to 2020.

2020 Budget and Actual Results

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 MNT10.7 trillion (US$3.8 billion), 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 MNT8.8 trillion, 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 MNT14.6 trillion (US$5.2 billion), or 37.7% of projected GDP.

Total revenue for 2020 was MNT10.4 trillion (US$3.1 billion), or 97.3% of amended budgeted revenue. Total expenditures for 2020 were MNT13.9 trillion (US$4.2 billion), which was 95.4% of amended budgeted expenditure. The overall budget deficit in 2020 was MNT3.5 trillion (US$1,230.0 billion). 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 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.

Future Heritage Fund

Mongolia's sovereign wealth fund, the Future Heritage Fund, was established on January 1, 2017, and as of December 31, 2022 and September 30, 2023, the fund had total net assets of MNT2,618.1 billion and MNT2,788.3 billion, respectively. 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. Starting from 2025, the Future Heritage Fund will be 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. Pursuant to the Law on the National Wealth Fund, the Fund is regulated by the Law on the Future Heritage Fund and aims to follow the general practices of sovereign development funds and strategic investment funds around the world such as Singapore's Temasek Holdings. 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. From 2023 onwards, both royalty payments and dividends received from the mining sector will be allocated to the Future Heritage Fund. During the COVID-19 pandemic, royalty payments and dividends received from the mining sectors that otherwise would have been directed to the Fund were allocated to support budgetary spending on the population's welfare. The law provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation and Child Money Program, 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. Following the 2020 amendments to the Law on the Procedure for Implementation of the Law on the Future Heritage Fund, the Ministry of Finance can accumulate assets of the Future Heritage Fund within the scope of its functions of managing the unified account of the state treasury and implementing the consolidated cash management, taking into account the Government's external debt position, until 2025. This allows Mongolia to reposition its budget balance from disruptions caused by COVID 19.

The Future Heritage Fund's revenue was MNT914.1 billion, MNT937.9 billion and nil in 2020, 2021 and 2022, respectively. Under the 2023 Budget, the funds to be accumulated to the Future Heritage Fund was set at MNT540.0 billion. Under the 2024 Budget, the funds to be accumulated to the Future Heritage Fund was set at MNT1,353.3 billion, or 4.9% of the 2024 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.

As of December 31, 2022, the FSF had a total net assets of MNT1,394.6 billion, which represented a 185.5% overperformance in the fund's growth over budgeted amounts. As of September 30, 2023, the FSF had a total net assets of MNT1,221.1 billion.

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 nine months ended September 30,
	2018	2019	2020	2021	2022	2023[(1)]
Net surplus (deficit)/ GDP (%)	0.1	(1.9)	(12.3)	(8.8)	(1.9)	3.5
Primary balance/ GDP (%)	5.9	3.4	(7)	(7.3)	(0.4)	5.1
Public sector debt/ GDP (%)	79.97	75.54	86.88	76.2	72.3	61.9
Real GDP growth (%)	7.7	5.6	(4.6)	1.6	5.0	6.9
Nominal GDP (MNT billions)	32,582.6	37,839.2	37,453.3	43,555.5	53,851.5	46,502.2
Year-on-year inflation (%)	8.1	5.2	2.3	13.8	13.2	10.1

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
	2018	2019	2020	2021	2022	2023[(1)]

	(MNT billion)					
Revenue:						
Indirect taxes	2,950.8	3,349.7	2,985.8	3,664.2	4,794.0	5,743.9
Direct taxes	5,256.3	6,463.5	5,525.8	7,598.6	10,665.0	13,171.5
Non-tax revenue	1,018.8	1,092.3	952.2	1,426.6	1,668.0	1,866.5
General non tax revenue	980.4	1,003.1	785.0	1,269.3	1,364.3	1,295.8
Capital revenue	0.7	0.8	1.2	1.5	4.1	0.2
Grants and transfers	37.8	88.4	166.0	155.8	299.6	570.5
Fiscal Stabilization Fund	207.0	94.6	66.2	627.9	1,394.6	501.6
Future Heritage Fund	620.7	1,040.2	914.1	937.9	-	540.0
Total revenue and grants	**10,053.6**	**12,040.3**	**10,444.2**	**14,255.2**	**18,521.6**	**21,823.5**
Current expenditure	**7,348.0**	**8,228.6**	**10,828.9**	**12,754.4**	**14,229.3**	**16,914.1**
Wages and salaries	1,878.7	2,257.0	2,648.9	2,528.5	1,666.3	2,734.3
Purchase of goods and services	1,437.7	1,743.5	2,202.3	2,131.6	2,139.7	2,386.7
Interest payments	1,046.9	861.0	939.2	827.7	797.8	1,093.5
Subsidies to public enterprises	230.0	298.9	375.1	453.7	537.1	636.8
Current transfers	2,746.4	3,068.2	4,663.5	6,813.0	9,088.5	10,062.8
Capital expenditure	**1,607.8**	**3,016.7**	**3,034.2**	**3,047.0**	**3,803.4**	**5,616.2**
Building and facilities	1,094.6	2,256.8	2,072.0	1,920.4	2,923.5	3,588.6
Capital repairs road fund	84.9	161.6	145.0	130.6	142.9	172.4
Other capital expenditure	495.9	598.2	817.3	996.0	737.0	1,855.2
Net lending	**267.1**	**416.5**	**41.1**	**(203.3)**	**127.0**	**(159.0)**
Total expenditure and net lending	**9,222.9**	**11,661.7**	**13,904.3**	**15,598.1**	**18,159.7**	**22,371.4**
Structural fiscal balance	27.9	(756.2)	(4,440.4)	(2,908.8)	(1,032.7)	(1,589.5)

Source: Ministry of Finance.
(1) Approved 2023 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 81.5%, 79.0% and 83.5% of total revenue and grants for 2020, 2021 and 2022, respectively.

In the nine months ended September 30, 2023, total revenue and grants increased by 42.4% compared to the corresponding period in 2022, primarily due to increase in tax revenue. This was driven by higher revenue from indirect and direct taxes in the nine months ended September 30, 2023, which increased by 15.0% and 37.9%, respectively.

In 2022, total revenue and grants increased by 29.9% compared to 2021, primarily due to significant increase in tax revenue. This was driven by higher revenue from indirect and direct taxes in 2022, which increased by 30.8% and 40.4%, respectively.

In 2021, total revenue and grants increased by 36.5% compared to 2020, primarily due to significant increases in tax revenue. This was driven by higher indirect tax and direct tax revenues in 2021, which increased by 22.7% and 37.5%, respectively.

In 2020, total revenue and grants decreased by 13.3% compared to 2019, primarily due to lower tax revenue due to tax exemptions and other effects related to the COVID-19 outbreak.

Expenditures

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 77.9%, 81.8% and 78.4% of total expenditure and net lending for 2020, 2021 and 2022, respectively.

In the nine months ended September 30, 2023, total expenditures increased by 38.6% compared to the corresponding period in 2022, primarily due to increases in subsidies to public enterprises and current transfers, which increased by 37.8% and 17.8%, respectively.

In 2022, total expenditures increased by 14.1% compared to 2021, primarily due to increases in subsidies to public enterprises and current transfers, which increased by 18.4% and 33.4%, respectively.

In 2021, total expenditures increased by 14.0% from December 31, 2020, primarily due to increases in subsidies to public enterprises and current transfers, which increased by 21.0% and 46.1%, respectively.

In 2020, total expenditure increased by 23.3% from December 31, 2019, primarily due to the increased expenditures related to the Child Money Program and other social welfare programs in response to the COVID-19 outbreak.

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 MNT14.5 trillion in 2023, MNT16.0 trillion in 2024; and the maximum amount of Government expenditure is projected to be 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 2.8% in 2023 and 2.0% in 2024.

PUBLIC SECTOR DEBT

Public Sector Debt

Public sector debt as of September 30, 2023, amounted to US$10.6 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 44.3% and total nominal debt-to-GDP ratio of 61.9% as of September 30, 2023. According to the Ministry of Finance, the net present value of total government debt-to-GDP ratio is not expected to exceed 65.0% at the end of 2023 and 60.0% in 2024, 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, (1)(2)					As of September 30,
	2018	2019	2020	2021	2022	2023(3)
			(US$ millions)			
Total public sector domestic debt	592.0	512.0	398.9	230.7	300.6	154.4
Nominal GDP (%)	4.83	3.75	3.08	1.53	1.96	0.88
Public sector external debt						
Government external debt	7,184.2	7,806.2	8,653.8	8,668.0	8,605.2	8,463.2
Central Bank external debt	2,030.2	1,984.7	2,221.0	2,610.0	2,179.0	1,980.6(5)
Total public sector external debt	9,214.4	9,790.9	10,874.8	11,278.0	10,784.2	10,443.8
As a percentage of nominal GDP (%)	75.1	71.8	83.8	74.7	70.3	59.3
Total public sector debt	**9,806.4**	**10,302.9**	**11,268.8**	**11,508.7**	**11,084.8**	**10,598.2**
As a percentage of nominal GDP (%)	80.0	75.5	86.9	76.2	72.3	61.9
Net present value debt to nominal GDP ratio (%)(4)	58.9	55.6	62.3	50.8	52.4	44.3

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.

(5) Figures as of June 30, 2023.

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

The table below sets forth the outstanding Government external debt of Mongolia as of the dates indicated. Foreign currency values of outstanding external debt in the table have been converted into U.S. dollars at the applicable Bank of Mongolia closing exchange rates as of the respective dates indicated. The data below exclude Government-guaranteed debt.

	As of December 31,					As of September 30,
	2018	2019	2020	2021	2022	2023[1]
			(US$ millions)			
Concessional Loans:	4,022.2	4,526.8	5,731.7	5,798.1	5,888.0	5,820.6
Multilateral loans[2]	1,831.2	2,063.7	2,784.7	2,970.8	3,114.2	2,995.9
Bilateral loans	2,190.9	2,463.1	2,947.0	2,827.3	2,773.8	2,824.7
Commercial Loans:	216.0	156.0	60.0	0.0	0.0	0.0
Bonds	2,946.0	3,123.3	2,862.2	2,869.9	2,717.2	2,642.5
Total	7,184.2	7,806.1	8,653.8	8,668.0	8,605.2	8,463.2

Source: *Ministry of Finance; Bank of Mongolia.*

(1) Provisional figures subject to further adjustments.

(2) 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

The table below sets forth the Government debt service requirements of Mongolia, broken down by principal and interest commitments, for the years indicated. 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 September 30, 2023. The data below exclude (i) pro forma of the Bonds and any liability management exercise arising therefrom; and (ii) Government-guaranteed debt, which totaled US$214.9 million as of September 30, 2023.

Type of Debt and Lenders	2024*		2025*		2026*		2027*		2028*		2029*		2030*		2031*	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
							(US$ in millions)									
Multilateral loans[1][2]	225.9	119.9	250.7	120.8	270.3	119.0	287.3	111.8	299.1	100.8	279.8	89.0	258.5	79.0	247.3	69.9
ADB	131.3	83.6	157.6	82.7	181.5	79.0	189.7	73.0	200.7	65.5	192.1	57.5	181.1	50.3	170.5	43.6
World Bank	29.9	14.7	36.1	16.5	40.3	17.9	43.6	18.2	44.4	17.5	46.3	16.7	48.4	15.9	47.9	15.0
EBRD	6.1	6.4	9.2	8.8	12.3	11.5	17.8	11.9	17.8	11.1	17.8	10.0	17.8	9.0	17.8	8.0
Others	58.5	15.2	47.8	12.8	36.2	10.7	36.2	8.7	36.2	6.7	23.7	4.8	11.1	3.8	11.1	3.2
Bilateral loans[3]	140.5	34.3	166.6	35.4	167.6	35.6	176.3	35.3	175.9	35.0	184.2	34.6	196.5	34.2	260.4	33.1
Japan	48.4	3.5	59.9	3.1	57.7	2.8	56.7	2.5	55.0	2.3	54.4	2.1	54.4	1.9	54.4	1.7
China	53.5	21.1	69.4	21.1	70.9	20.2	82.8	18.8	82.8	17.3	82.8	15.7	85.1	14.1	85.1	12.5
Germany	4.3	1.3	4.3	1.3	4.4	1.2	4.6	1.2	5.3	1.2	6.0	1.1	6.2	1.1	6.2	1.0
Others	34.4	8.4	33.0	10.0	34.7	11.4	32.2	12.8	32.8	14.3	41.0	15.7	50.9	17.1	114.7	18.0
Domestic bonds[4]	39.6	2.2	-	0.3	-	0.3	-	0.3	-	0.3	-	0.3	-	0.3	27.8	0.3
External bonds[5]	600.0	143.9	-	126.7	600.0	111.4	500.0	96.0	650.0	50.4	-	22.3	-	22.3	500.0	22.3
Total	1,006.0	300.3	417.3	283.3	1,037.9	266.2	963.6	243.4	1,125.0	186.5	464.0	146.1	455.0	135.7	1,035.5	125.5

Source: Ministry of Finance

(1) 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.

(2) The weighted average interest rate for Multilateral loans is 2.2%.

(3) The weighted average interest rate for Bilateral loans is 2.1%.

(4) The weighted average interest rate for Domestic bonds is 10.1%.

(5) The weighted average interest rate for External bonds is 6.1%.

* Projected based on Government external debt outstanding as of September 30, 2023.

Interest Payments

The following table sets forth the level of interest payments of public sector debt for the periods indicated. The data below exclude those of Government-guaranteed debt.

	For the year ended December 31,					For the nine months ended September 30,
	2018	2019	2020	2021	2022	2023(1)
	(MNT billions)					
Interest payments	1,045.80	894.50	932.8	829.6	807.8	919.5
Percentage of GDP	3.23%	2.40%	2.52%	1.93%	1.50%	1.51%

Source: National Statistical Office of Mongolia.
(1) Provisional figures are subject to further adjustment.

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

In 2021, interest payments decreased to MNT829.6 billion, compared to MNT932.8 billion in 2020, primarily due to the result of the liability management exercise conducted in June 2021, which refinanced a portion of outstanding bonds due in 2022 and 2023.

In 2022, interest payments decreased to MNT807.8 billion, compared to MNT829.6 billion in 2021, primarily due to the decrease in the amount of domestic bonds.

In the nine months ended September 30, 2023, interest payments increased to MNT919.5 billion, compared to MNT581.5 billion in the corresponding period of the preceding year, primarily due to the increase in the Secured Overnight Financing Rate.

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 50.8% as of December 31, 2021 and at 52.4% as of December 31, 2022. 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 has engaged in liability management exercises, including tender offers and other repurchases of its external bonds from time to time, and may conduct similar exercises on an opportunistic basis.

The Government expects to improve its debt management practices to align with international best practices. Parliament approved the Medium-Term Debt Management Strategy 2023-2025 in May 2022. The key measures for debt management outlined by the Government Medium-Term Debt Management Strategy 2023-2025 include:

- conducting regular surveys of foreign market conditions, costs, and risks, and implementing measures to repurchase its outstanding foreign bonds that are trading below par;
- reducing repayment risk by setting criteria and conducting a risk assessment of domestic borrowers of funds on-lent from the Government's foreign borrowings;
- investigating the possibility of issuing green, social or sustainability debt instruments to implement measures in line with the Sustainable Development Goals;
- using Government debt guarantees to support the creation of economically and socially viable, high-budget projects;
- improving oversight of government debt-guaranteed projects to reduce the contingent liability risks;
- improving government debt transparency; and

- reducing reliance on foreign loans and increasing reliance on public domestic debt to fund budget deficits by issuing domestic securities through private placements and conducting public securities offerings through the Mongolian Stock Exchange in 2024.

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 targets.

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 nine months ended September 30,	
	2018	2019	2020	2021	2022	2022	2023[(1)]
	(US$ millions)						
Current account:							
Goods and services balance	(1,303)	(834)	305	(306)	(1,123)	(1,075)	1,461
Goods balance	676	1,158	1,756	1,370	1,233	463	3,373
Exports (FOB)	6,557	7,183	6,991	8,136	9,854	6,773	10,295
Imports (FOB)	5,881	6,025	5,235	6,766	8,622	6,310	6,922
Services balance	(1,978)	(1,992)	(1,450)	(1,675)	(2,355)	(1,538)	(1,912)
Net income balance	(1,228)	(1,569)	(1,253)	(2,232)	(1,615)	(1,098)	(1,331)
Net current transfers	324	241	273	429	434	384	338
Total current account	(2,207)	(2,162)	(675)	(2,108)	(2,304)	(1,790)	468
Capital and financial account:							
Capital account	92	161	103	114	154	106	90
Financial account	(2,091)	(2,678)	(1,504)	(1,982)	(1,644)	(906)	(446)
Net direct investment	(2,137)	(2,316)	(1,693)	(2,060)	(2,428)	(1,028)	(975)
Direct investment abroad	37	127	26	113	76	56	31
Direct investment in Mongolia	2,174	2,443	1,719	2,173	2,504	1,084	1,006
Portfolio investment	(61)	(372)	563	25	445	187	272
Other investment	119	5	(369)	60	351	(54)	256
Total capital and financial account	2,183	2,838	1,607	2,096	1,798	1,012	536
Net errors and omissions							
Total net errors and omissions	(118)	(224)	(146)	(209)	(222)	(581)	(213)
Overall balance of payments	**(142)**	**453**	**787**	**(222)**	**(727)**	**(1,359)**	**791**
Reserves and related items	**(142)**	**453**	**787**	**(222)**	**(727)**	**(1,359)**	**791**

Source: Bank of Mongolia.
(1) Provisional figures subject to adjustments.

For the nine months ended September 30, 2023, the current account reflected a surplus of US$467.7 million and the capital and financial account reflected a surplus of US$536.4 million, resulting in a surplus in the overall balance of payments of US$791.4 million. The current account reflected a surplus of US$467.7 million for the nine months ended September 30, 2023 compared to a deficit of US$1,789.8 million of the corresponding period of the preceding year, primarily due to an increase in coal export volume as a result of China's removal of pandemic border controls and the easing of transportation bottlenecks since the second half of 2022. The surplus in the capital and financial account decreased by 47.0% for the nine months ended September 30, 2023 compared by the corresponding period of the preceding year, primarily due to increased outflows in the portfolio investment and other investment accounts.

For 2022, the current account reflected a deficit of US$2,303.5 million and the capital and financial account reflected a surplus of US$1,798.3 million, resulting in a deficit in the overall balance of payments of US$727.2 million. The current account deficit increased by 9.3% in 2022 compared to 2021, primarily due to a decrease in the goods balance. The surplus in the capital and financial account decreased by 14.2% for 2022 compared to 2021, primarily due to increased outflow in the portfolio investment and other investment accounts, offset in part by inflows in direct investment in Mongolia.

For 2021, the current account reflected a deficit of US$2,108.4 million and the capital and financial account reflected a surplus of US$2,096.2 million, resulting in a deficit in the overall balance of payments of US$221.6 million. The current account deficit increased significantly in 2021 compared to 2020, primarily due to a significant decrease in the goods balance. The surplus in the capital and financial account increased by 30.4% for 2021 compared to 2020, primarily due to increased inflows in direct investment in Mongolia and decreased outflow in portfolio investment, 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.

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 entity 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 Ministry of Economy and Development 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) and the SEFIL. See "*Mongolia—Legal Reform—Laws Affecting the Mining Sector—Regulations Affecting Foreign Direct Investment*."

The following table sets forth inflows of direct investment in Mongolia by industry for the periods indicated:

	For the year ended December 31,					For the six months ended June 30,	
	2018	2019	2020	2021	2022	2022	2023(1)
			(US$ millions)				
Construction	21.7	52.7	32.4	38.7	63.5	30.3	12.6
Information and communication	7.6	6.2	6.0	7.3	15.6	1.2	8.1
Financial and insurance activities	224.4	192.2	110.4	91.9	116.1	43.4	41.0
Mining and quarrying	2,130.3	2,374.5	1,678.8	2,076.5	2,819.0	683.2	949.4
Others	344.8	505.4	732.8	499.0	403.6	185.0	165.4
Total	**2,728.7**	**3,130.8**	**2,560.3**	**2,713.6**	**3,417.8**	**943.1**	**1,176.5**

Source: Bank of Mongolia.
(1) Provisional figures subject to adjustments.

Inflows of direct investment increased to US$1,176.5 million in the six months ended June 30, 2023 compared to US$943.1 million in the corresponding period last year, primarily due to an increase in the inflows of direct investment in the mining and quarrying sector.

Inflows of direct investment increased to US$3,417.8 million for 2022 compared to US$2,713.6 million for 2021, primarily due to an increase in the inflows of direct investment in the mining and quarrying sector.

Inflows of direct investment increased to US$2,713.6 million for 2021 compared to US$2,560.3 million for 2020, primarily due to an increase in the inflows of direct investment in the mining and quarrying sector, offset in part by a decrease in the inflows of direct investment in other sectors.

Inflows of direct investment decreased to US$2,560.3 million for 2020 compared to US$3,130.8 million for 2019, primarily due to a decrease in the inflows of direct investment in the mining and quarrying sector, offset in part by an increase in the inflows of direct investment in other sectors.

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 October 31,
	2018	2019	2020	2021	2022	2023(1)
				(US$ millions)		
Gross foreign exchange reserves......................	3,549.6	4,348.6	4534.2	4,366.1	3,399.6	3,977.4

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 producers, (iii) receiving foreign loans and grants, and (iv) income from foreign exchange reserves management operations.

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 December 31, 2021, foreign exchange reserves slightly decreased to US$4,366.1 million, reflecting a 3.7% decrease from December 31, 2020, primarily due to increased domestic foreign exchange market activities caused by the loosening of COVID-19-related restrictions in the second half of 2021.

As of December 31, 2022, foreign exchange reserves decreased to US$3,399.6 million, reflecting a 22.1% decrease from December 31, 2021, mainly attributable to (i) higher imports due to the economic recovery after the COVID-19 pandemic; (ii) the significant increase in the payment of transportation services due to supply chain issues; and (iii) a decrease in net borrowing in the capital and financial accounts.

As of October 31, 2023, foreign exchange reserves rose to US$3,977.4 million, reflecting a 17.0% increase from December 31, 2022, mainly attributable to the surplus in the current account, driven by an increase in coal export volume following the removal of China's pandemic border controls.

The Bank of Mongolia aims to keep the exchange rate flexible, as a shock-absorber for the commodity-dependent economy, and continue to maintain foreign exchange reserves which are sufficient to cover the import need for at least three months.

Exchange Rate Policy

Mongolia's foreign exchange market is regulated under the Currency Settlement Law of 1994. There are no restrictions on the transfers of foreign currencies such as outflows and inflows transaction abroad, and there are no foreign exchange controls. In light of the economic disruptions resulting from the COVID-19 pandemic, certain laws and policies were implemented in 2020 to decrease "dollarization" of the economy. Pursuant to those laws and policies, transactions must be done in domestic currency between residents' accounts within the territory of Mongolia. These restrictions, which expired on December 31, 2022, did not, however, apply to foreign transfers.

Parliament adopted the Law of Mongolia on Settlement of Payments in National Currency (the "National Currency Law") on July 9, 2009. This law aims to prohibit transactions settled in foreign currency, ensuring the stability of the national currency. These measures have reportedly been implemented to avoid any "dollarization" of the national economy after the global financial crisis during 2007 and 2008. The Settlement of Payments in National Currency Law prohibits the settlement of payment for goods and services in foreign currency within the territory of Mongolia as well as setting prices of goods and services and making advertisements in foreign currency unless granted permission by the Bank of Mongolia. Banking and financial institutions are exempted from these requirements.

The level of dollarization of loans in Mongolia's banking sector has been decreasing in recent years, while the dollarization of current accounts and deposits has remained a relatively high level due to the Tugrik's depreciation against the U.S. dollar. As of September 30, 2023, 6.2% of total loans were in foreign currency, whereas 30.7% of total deposits were in foreign currency, indicating a trend where depositors prefer to borrow in domestic currency and deposit in foreign currency.

Mongolia has a floating exchange rate regime, which allows currency fluctuations that are consistent with the prevailing macroeconomic environment. Foreign investors can freely repatriate dividends and principal without requiring governmental approvals. The Tugrik can be converted into foreign currencies through any commercial bank or licensed currency exchange entities.

The Bank of Mongolia does not set a specific exchange rate through policies or regimes. Rather, it intervenes only to mitigate volatility caused by sudden short-term mismatch of supply and demand. The Bank of Mongolia anticipates no change in this policy, intends to uphold the floating exchange rate regime and allows the exchange rate to be determined 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 shortest term 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.

According to the 2023 Monetary Policy Guideline, the existing subsidized mortgage program must be transferred to the Government by end of June 2023 given the expiration of a set of anti-pandemic laws at the end of 2022. As of the date of this Offering Memorandum, no decision on this transfer has been made yet.

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:

	Policy Rate
March 26, 2018	10.0%
June 15, 2018	10.0%
September 20, 2018	10.0%
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%

	Policy Rate
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%
May 13, 2021	6.0%
December 31, 2021	6.0%
January 31, 2022	6.5%
March 24, 2022	9.0%
June 22, 2022	10.0%
September 20, 2022	12.0%
December 16, 2022	13.0%
March 15, 2023	13.0%
June 23, 2023	13.0%
September 15, 2023	13.0%

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.

On June 23, 2021, the MPC decided to keep the policy rate unchanged at 6.0% and provide up to MNT250 billion under its long-term repo financing instrument in the third quarter of 2021. The MPC stated that as the external environment has improved and the government and the central bank have taken policy measures to boost the economy, the economy experienced improved growth in the first quarter of 2021. However, although most economic sectors have shifted to recovery, the recovery was dissimilar among the economic sectors, and the uncertainty with respect to the domestic spread of the COVID-19 remained. The Bank of Mongolia has adopted new financing instruments and relaxed financial regulatory requirements to mitigate the impact of the COVID-19 pandemic, facilitate economic recovery and ensure banking sector stability.

Considering the macroeconomic and financial outlook and uncertainties in the global and domestic economic environment, on September 16, 2021, the MPC decided to keep the policy rate unchanged at 6.0% and provided up to MNT100 billion under its long-term repo financing instrument in the fourth quarter of 2021. The decision was made with an aim to stabilize inflation and support the economic recovery, hence, alleviating the negative impact on economy due to the COVID-19 pandemic.

To slowdown the economic downturn, maintain relative yield of Tugrik and reduce the dollarization of bank liabilities, on December 16, 2021, the MPC decided to (i) keep the policy rate unchanged at 6.0%, (ii) provide up to MNT 250 billion under its long-term repo financing instrument in the first quarter of 2022, (iii) set repo financing rate at policy rate plus 0.5%, and (iv) increase the reserve requirement on liabilities in foreign currency by 3 percentage points to 18%.

To further alleviate the negative economic impact stemming from the intense spread of the Omicron variant of COVID-19 and the pandemic, on January 28, 2022, the MPC decided to (i) increase the policy rate by 0.5 percentage points to 6.5%, (ii) raise the reserve requirement on liabilities on domestic currency by 2 percentage points to 8%, and (iii) modify financing conditions of long-term repo issued to non-mining exports and manufacturing sectors.

On March 24, 2022, the MPC raised the policy rate by 2.5 percentage points to 9.0%, considering the uncertainty in foreign and domestic economy due to the tension arising in international relations as well as constrained supply of production inputs resulting from anti-COVID policies implemented by China, Mongolia's main trading partner.

On June 22, 2022, the MPC raised the policy rate by 1.0 percentage points to 10.0%. The decision was made considering the current state of the economy and financial markets, as well as outlook and risks to the domestic and foreign economic environment.

On September 20, 2022, the MPC decided to (i) raise the policy rate by 2.0 percentage points to 12.0%, (ii) widen the policy rate corridor to be set as 2% above and below the policy rate, and (iii) exclude certain bank liabilities with maturities of at least 360 days and more that are newly funded on international markets in the form of bonds or loans from required reserve liabilities. The MPC stated that subsequent policy actions on whether to pursue further monetary tightening would be dependent on developments in external and domestic economy as well outlook changes in inflation and macroeconomic conditions.

On December 16, 2022, the MPC raised the policy rate by 1.0 percentage point to 13.0%. The decision was made to stabilize the medium-term inflation expectations and increase the domestic currency yield, which is consistent with the MPC's commitment to reducing inflation to the target level and ensuring the economy's internal and external balance.

On March 15, 2023, the MPC decided to (i) keep the policy rate unchanged at 13.0%, (ii) narrow the policy rate corridor to 1 percentage point above and below the policy rate, and (iii) exclude certain bank liabilities with maturities of 360 days or less that are newly funded on international markets in the form of bonds or loans from required the reservable liabilities. These decisions were made in consideration of the high external risks and uncertainties. These policy measures are aimed at reducing inflation to its target level at a faster pace and ensure both internal and external economic balances, through increasing domestic currency yield and encouraging banks to raise their foreign currency funding.

On June 23, 2023, the MPC kept the policy rate unchanged at 13.0%, in consideration of the high levels of external risks and uncertainty, coupled with the anticipated increase in fiscal expenditures. The decision was made to stabilize inflation around its target level, ensure both internal and external economic balances, and increase domestic currency yield.

On September 15, 2023, the MPC kept the policy rate unchanged at 13.0%, in consideration of the high levels of both external and internal uncertainty and the slowing the pace of inflation. This decision was consistent with the MPC's objective of stabilizing inflation around the target level in the medium term and ensuring macroeconomic stability.

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 August 2023.

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. An increase in net foreign assets was the main contributing factor to the growth of M2 money supply in the first nine months of 2023. This increase was directly associated with balance of payments surplus in the first nine months of 2023. Credit growth has been contributing positively to the 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 September 30,
	2018	2019	2020	2021	2022	2023(1)
			(MNT billions)			
Currency outside banks	670.5	614.5	753.2	847.2	831.1	837.8
Current account in domestic currency	3,360.5	3,296.9	3,459.2	5,660.0	6,370.2	7,352.0
Total (M1)	4,031.0	3,911.4	4,212.4	6,507.2	7,201.3	8,189.8
Quasi money	15,443.7	17,152.2	20,268.4	21,356.3	22,463.5	25,021.0
Money (M2)	19,474.7	21,063.6	24,480.7	27,863.5	29,664.8	33,210.8

Source: Bank of Mongolia

(1) Provisional figures subject to further adjustments.

Financial System

Overview

As of September 30, 2023, the Mongolian financial sector comprised 12 commercial banks, 11 of which were privately owned and one state-owned, one state development bank and 521 licensed non-banking financial institutions. As of September 30, 2023, the leading banks in the industry by the size of assets, loans and deposits were Khan Bank, Trade and Development Bank of Mongolia, Golomt Bank, 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 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 conducted an independent Asset Quality Review ("AQR") for the first time for 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 abovementioned AQR. 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. More recently, as part of the banking sector reform program, the Bank of Mongolia conducted AQRs for the D-SIBs in June and July 2022 before the banks' restructuring from limited liability company to joint stock company through IPOs. The 2022 AQRs were conducted in collaboration with an independent external consultant PricewaterhouseCoopers Tax & Advisory LLP, Kazakhstan and the result suggests, after the capital adjustment, total recapitalization needs were relatively immaterial relative to the those in 2017, and all D-SIBs met their AQR-adjusted capital requirements within the set deadline and went public which all resulted in oversubscription.

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 adopted the Basel Accords including Pillar II and other regulatory capital requirements such as capital conservation buffers for regulated banks. 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.

Prudential norms, first introduced in 1996 closely mirror key international norms, particularly the capital adequacy principle. The minimum capital adequacy ratios as of September 30, 2023 ("CARs") for commercial banks were 9.0% for the Tier I capital ratio and 12.0% for the total capital. 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. With the unwinding of the COVID-19 forbearance measures, starting from July 1, 2022, all banks are required to comply with the buffer requirements.

A new Minimizing Lending Rate Strategy was approved by Parliament 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.

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 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. Due to internal and external factors affecting the banks' ability to meet this deadline on single-shareholder ownership, the Bank of Mongolia proposed an extension. The deadline for D-SIBs to complete their IPOs was subsequently postponed to June 30, 2023. As of June 30, 2023, Mongolia's five domestic systemically important banks, namely State Bank, Golomt Bank, Khan Bank, Trade and Development Bank, and Xac Bank, all had completed their listings on the Mongolian Stock Exchange. These banks offered between 5.0% and 11.4% of their total shares to the public and raised approximately MNT452.6 billion through their IPOs.

In response to the effects of COVID-19, the Bank of Mongolia issued temporary forbearance measures to relieve burdens on borrowers and banks hit by the outbreak up until June 30, 2021. As the banking system soundness is most likely to be affected by COVID-19 even after the temporary relief measures, the Bank of Mongolia implemented exit strategy to minimize the negative effects on banks and borrowers from transitioning to regular regulatory requirements and successfully fully phased out in March 2022. The relief measures include 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 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.

DBM has entered into 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. On October 23, 2023, the US$500.0 million senior notes were fully repaid. The Samurai bond with 1.5 percent interest rate and 10-year maturity issued in 2013 has an outstanding balance of JPY 30 billion and is due on December 25, 2023. As of September 30, 2023, the repayment amount had been fully covered in the JPY account of the Treasury Department of the Ministry of Finance. As of September 30, 2023, 26.0% of DBM's external debt, or US$201.4 million, is guaranteed by the Government.

Since 2022, DBM has primarily focused on the repayment of its upcoming debt maturities and did not issue any new loans. DBM expects to resume its lending operations from 2024 onwards, focusing on sectors such as renewable energy, logistics and agriculture projects. It also expects to also shift to downstream value-added services and capital expenditure-related financing. In addition, DBM intends to contribute towards the New Revival Policy by co-financing selected projects with multilateral institutions or domestic commercial banks. DBM is also seeking to receive technical assistance from the ADB on bank strategy, governance, legal framework and strategy.

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 September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023[1]**
			(MNT billions)			
Loans	17,082.4	17,932.2	17,034.3	20,667.4	22,008.3	25,871.1
Year-on-year (%)	26.5	5.0	(5.0)	21.3	6.5	13.7
Deposits[2]	18,056.3	19,768.9	23,572.8	26,837.8	26,445.3	31,633.6
Year-on-year (%)	28.5	9.5	19.2	13.9	(1.5)	21.5
Loan-to-deposit ratio ("LDR")	94.6%	90.7%	72.3%	77.0%	83.2%	81.8%
Liquidity ratio[3]	40.9%	39.5%	46.4%	41.6%	54.7%	47.4%

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 September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023[1]**
			(MNT billions)			
Credit extended to bank	937.4	1,224.8	1,166.3	3,204.3	3,079.4	1,796.3

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 September 30, 2023, banking system NPL decreased by 14.3% year-over-year, the majority of which was comprised of financial, insurance and mining sector loans. Problem loans, which is the sum of special mention and non-performing loans, increased in all economic sectors, with the exception of the mortgage and trade sectors, in 2022. Despite the growth of NPLs, banking system Tier I and total capital adequacy ratios were robust at 17.2% each, which are 8.2 and 5.2 percentage points higher, respectively, than the minimum requirements. The Bank of Mongolia's decision, effective January 1, 2019, to impose 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 September 30,
	2018	2019	2020	2021	2022	2023(1)
			(MNT billions)			
Performing	14,460.7	15,297.5	13,767.4	17,661.8	18,865.9	22,264.3
Past due	843.4	815.8	1,264.5	932.5	1,123.5	1,414.0
Non-performing(2)	1,778.3	1,818.9	2,002.3	2,073.1	2,018.9	2,192.8
Total	17,082.4	17,932.2	17,034.3	20,667.4	22,008.3	25,871.1
NPL ratio	10.4%	10.1%	11.8%	10.0%	9.2%	8.5%

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 September 30,
	2018	2019	2020	2021	2022	2023(1)
			(MNT billions)			
Agriculture, forestry, fisheries and subsistence	331.4	384.1	298.6	339.0	388.6	532.0
Mining and quarrying	1,233.1	1,518.1	1,758.8	1,851.2	1,173.2	1,324.6
Construction	1,507.4	1,622.5	1,508.5	1,637.2	1,779.3	1,920.3
Manufacturing	1,446.3	1,429.6	1,389.3	1,665.7	1,527.7	1,891.5
Wholesale and retail trade	2,411.3	2,893.2	2,748.2	4,120.6	4,752.0	5,047.5
Transportation	340.0	370.6	405.9	636.9	696.6	802.8
Communication	66.6	84.9	62.9	77.3	101.0	579.9
Financial and insurance service	467.9	432.9	303.9	382.9	516.0	579.9
Real estate	1,823.6	2,066.5	2,282.6	2,946.1	3,415.1	3,615.4
Others(2)	7,454.7	7,129.9	6,275.5	7,010.4	7,658.8	10,038.5
Total	**17,082.4**	**17,932.2**	**17,034.3**	**20,667.4**	**22,008.3**	**25,871.1**

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.

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," "Regulation on Credit Origination Procedures," "Regulation on Asset Classification, Provisioning and its Disbursement of Assets."

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.

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. Furthermore, in light of the amendments to Banking that require D-SIBs to become public companies on October 5, 2021, the Governor of the Bank of Mongolia and the Chairperson of the FRC adopted Joint Order No.A-262/262 approving the Regulation on the Approval of Changes to the Share Capital and Shareholding Structure of a Bank in the form of a Joint Stock Company.

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 MNT100.0 billion (US$42.6 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, per bank supervisory data as reported by Bank of Mongolia:

	As of December 31,					As of September 30,
	2018	2019	2020	2021	2022	2023[1]
	(MNT billions)					
Capital	3,447.1	3,658.3	3,468.0	3,904.3	4,816.5	5,520.0

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 majority state-owned enterprise, and the MOF exercises the ownership rights of the government. In December 2022, 34% of the MSE were successfully offered to the public. 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 designated the issuing venue for public issuance and auction of government bonds. The Government of Mongolia is planning to begin issuing domestic securities through the new MSE domestic securities trading system in 2024. The new system is currently under development by the MSE.

On April 29, 2022, Parliament has approved "Guideline for state-owned enterprises to offer shares to the public through the stock exchange in 2022-2023". On June 29, 2022, further to Parliament's decision, the Cabinet has endorsed a list of such state-owned enterprises ("SOEs") detailing the timeline. The list includes 25 companies, such as the Mongolian Stock Exchange, Mongolian Telecom Company, National Reinsurance, Netcom, IT Park, and companies in charge of road maintenance. As of the date of this Offering Memorandum, SOEs such as the Mongolian Stock Exchange and Mongolian Telecom Company had been listed on 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 September 30,
	2018	**2019**	**2020**	**2021**	**2022**	**2023(1)**
			(MNT billions)			
Number of listed companies	217	198	192	179	183	185
Total market capitalization	2,508.0	2,690.3	3,026.6	5,979.0	6,888.3	10,288.8

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.

In April 2023, a "sandbox" legal framework was implemented in Mongolia, enabling the testing of innovative financial products in a secure environment. The newly approved sandbox regulatory procedure aims to enhance adaptability and responsiveness to market changes. This initiative has facilitated the introduction of novel financial services like peer-to-peer services, crowdfunding, and collective financing, filling regulatory gaps for these internationally recognized but previously unregulated offerings in Mongolia. In June 2023, the FRC registered the first green bond in Mongolia, which was the first green bond assessed by the international organization Sustainable Fitch as meeting the principles of green bonds.

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 the temporary ceasing of government bond issuances 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.

Under Resolution 16 of Parliament dated April 29, 2022 and Resolution 244 of the Government dated June 29, 2022, the MSE will become a public company by issuing and listing shares equivalent to 34% of its total shares. On December 14, 2022, the FRC approved the MSE's public offering of shares. On December 26, 2022, the MSE offered these additional shares to the public at MNT100 each and raised MNT11.9 billion.

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. In 2023, the Government issued domestic securities by private placement in accordance with the 2023 Budget Law of the Social Insurance Fund. Through the issuance of domestic securities, the Government's debt ratio to foreign debt ratio is expected to decrease and the debt denominated in local currency is expected to increase.

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 Bonds will be issued in an aggregate principal amount of US$350,000,000 and will mature on June 5, 2029 (the "Maturity Date"). Interest on the Bonds will be payable semi annually in arrears on June 5 and December 5 of each year, commencing on June 5, 2024 (each, a "Interest Payment Date") to persons in whose names the Bonds are registered at the close of business on the fifteenth calendar day preceding each Interest Payment Date. The Bonds will bear interest at the rate of 7.875% per annum from and including December 5, 2023 or from the most recent Interest Payment Date to which interest has been paid or provided to, and to and excluding, the 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 Maturity Date, and on the Maturity Date, the holders of the Bonds shall be entitled to a payment equal to the principal amount of the Bonds outstanding on the 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 and/or prefunding 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 and/or prefunding 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 $66^{2}/3\%$ 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 66⅔% 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, (b) in a "qualified reopening" of the Bonds of such series, or (c) with less than a de minimis amount of original issue discount, 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. The Issuer has obtained the information in this section from sources it believes to be reliable, including from DTC, Euroclear and Clearstream. 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 purchaser, the purchaser must first send instructions to Euroclear or Clearstream through a participant at least one business day prior to the settlement date. Euroclear or Clearstream 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 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, acting for the account of a purchaser of securities, will need to make funds available to Euroclear or Clearstream 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 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 seller to a DTC purchaser, the seller must first send instructions to and preposition the securities with Euroclear or Clearstream through a participant at least one business day prior to the settlement date. Euroclear or Clearstream will then instruct its New York depositary 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 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 depositary notifies the Issuer that it is unwilling or unable to continue as depositary, is ineligible to act as depositary 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 depositary 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

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 10%, 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 between 5-10%. 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.

Similarly, although the Corporate Income Tax Law imposes a withholding tax on capital gains realized on the sale of securities, including bonds, 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, any alternative minimum taxes or the 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. If a substantial amount of the Bonds are sold to persons that do not sell 2024 Bonds in the Tender Offer, the issue price of the Bonds will equal the first price at which a substantial amount of the Bonds are sold. Otherwise, the issue price of the Bonds will equal their fair market value, determined as of the issue date. Under U.S. Treasury regulations, the Government's determination of the issue price of the Bonds generally is binding on U.S. holders. U.S. holders will be able to obtain the Government's determination of the issue price for the Bonds by contacting the Director of the Financial Markets and Insurance Division at sonor_l@mof.gov.mn within 90 days of the Bonds' issuance.

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 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 dated November 28, 2023 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 Bonds set forth opposite such Initial Purchaser's name:

Name of Initial Purchasers	Principal amount of the Bonds to be purchased
J.P. Morgan Securities plc	US$175,000,000
The Hongkong and Shanghai Banking Corporation Limited	US$175,000,000
Total	**US$350,000,000**

The Bonds issued for cash will be purchased at the issue price of 99.017% 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 the 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.

The Initial Purchasers have been mandated as dealer managers in connection with the concurrent tender offer for the 2024 Bonds by the Issuer. See "*Summary of the Offering*" and "*Use of Proceeds*." The Issuer will pay the Initial Purchasers in their capacity as dealer managers of the concurrent tender offer customary fees and expenses.

Other Relationships

The Initial Purchasers 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 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. In the ordinary course of their various business activities, the Initial Purchasers 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.

Each of the Initial Purchasers or their respective affiliates may purchase 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).

The Initial Purchasers 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 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 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 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.

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the Bonds. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the Joint Lead Managers accordingly.

CMIs are informed that the marketing and investor targeting strategy for this offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Memorandum.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the Bonds (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the Bonds.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Joint Lead Managers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the Bonds, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;

- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to: investor.info.hk.oc.bond.deals@jpmorgan.com; and hk_syndicate_ omnibus @hsbc.com.hk.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in this offering. The Joint Lead Managers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Joint Lead Manager with such evidence within the timeline requested.

By placing an order, prospective investors (including any underlying investors in relation to omnibus orders) are deemed to represent to the Joint Lead Managers that it is not a Sanctions Restricted Person. A "Sanctions Restricted Person" means an individual or entity (a "Person"): (a) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (i) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/sdnlist.pdf) or (ii) the Foreign Sanctions Evaders List (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/fse/fselist.pdf) or (iii) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: https://eeas.europa.eu/headquarters/headquartershomepage_en/8442/Consolidated%20list%20 of%20sanctions); or (b) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of: (i) their inclusion in the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at: https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf) (the "SSI List"), (ii) their inclusion in Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by Council Regulation No. 960/2014 (the "EU Annexes"), (iii) their inclusion in any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes, (iv) them being the subject of restrictions imposed by the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") under which BIS has restricted exports, re-exports or transfers of certain controlled goods, technology or software to such individuals or entities; (v) them being an entity listed in the Annex to the new Executive Order of 3 June 2021 entitled "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China" (known as the Non-SDN Chinese Military- Industrial Complex Companies List), which amends the Executive Order 13959 of 12 November 2020 entitled "Addressing the threat from Securities Investments that Finance Chinese Military Companies"; or (vi) them being subject to restrictions imposed on the operation of an online service, Internet application or other information or communication services in the United States directed at preventing a foreign government from accessing the data of U.S. persons; or (c) that is located, organized or a resident in a comprehensively sanctioned country or territory, including Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine, the Donetsk's People's Republic or Luhansk People's Republic. "Sanctions Authority" means: (a) the United States government; (b) the United Nations; (c) the European Union (or any of its member states); (d) the United Kingdom; (e) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; and (f) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury, the United States Department of State, the United States Department of Commerce and His Majesty's Treasury.

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 a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of thereof; 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" as defined 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

Each Initial Purchaser has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Notification under Section 309B of the SFA: 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) 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; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "Prospectus Regulation").

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

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 distributed to: (i) qualified investors (*investisseurs qualifies*) 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. 411-1, L. 411-2 and D. 411-1 to D. 411-3 of the French Financial and Monetary Code (*Code monetaire 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 monetaire 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*).

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 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 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 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 RESALES 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 Allen & Overy (Asia) Pte. Ltd., 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 Home Affairs of Mongolia, and for the Initial Purchasers by StepEdge Counsels LLC, 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 Home Affairs, and Allen & Overy (Asia) Pte Ltd may rely on the opinion of StepEdge Counsels LLC.

GENERAL INFORMATION

(1) The issuance of the Bonds has been authorized by Resolution No. 398 of the Government of Mongolia dated November 1, 2023.

(2) The Bonds have been accepted for clearance through DTC, Euroclear and Clearstream as follows:

Rule 144A ISIN	Rule 144A CUSIP	Regulation S ISIN	Regulation S CUSIP
US60937LAH87	60937LAH8	USY6142NAH18	Y6142NAH1

(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 September 30, 2023 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 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 and the rules of the SGX-ST so require.

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) 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

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Trust and Agency Services
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United States of America

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United Kingdom

The HongKong and Shanghai Banking Corporation Limited
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THE GOVERNMENT OF MONGOLIA

US$350,000,000 7.875% Bonds Due 2029

Offering Memorandum

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

HSBC **J.P. Morgan**

November 28, 2023