



Khan Bank of Mongolia

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“Microfinance by a Commercial Bank”

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Khan Bank: History

- 1924 to 1990 - State Bank of Mongolia
Soviet style monobank
- 1991 - Agricultural Bank of Mongolia created
- 1999 - Placed in Receivership
- 2000 - DAI Management Contract* with Government
- 2003 - Successful privatization with H.S. Investment Company
from Japan winning international bid process
- 2003 - DAI* retained to manage bank

* Development Alternatives Inc.

Khan Bank: Current Ownership

H.S. Investment Company*	53.1%
Tavan Bogd Trade Company	35.4%
IFC	9.1%
Development Alternatives Inc.	2.2%
Morrow Family Trust	0.3%

* 100% subsidiary of Sawada Holdings Co. Ltd.

Khan Bank: Profile

	March 2007	July 2000
• Total Number of Branches	432	269
Ulaanbaatar Branches	46	2
Rural Branches	386	267
• On-Line Branches	210	0
• Number of Employees	2,896	803
• Depositors	1,287,224	
• Borrowers	280,722	
• Households served	62%	

Khan Bank: Branch Network

Ulaanbaatar Branches - 46 (was 2)

- City with over 1 million residents
- Reasonable infrastructure

Aimag Branches – 21 (no change) with 31 sub-branches (was 0)

- Regional towns with 20-30,000 residents
- Reasonable infrastructure

Rural Branches – 334 (was 246)

- Villages with 2-3,000 residents
- Very remote being 50-150 km. to next village
- Very poor with \$60 average monthly income
- Limited infrastructure with only dirt road access (former herder tracks)
- 100 branches still without electricity (was 189 in 2000)

Loans: Strategy

- Started lending in 2000
- Picked one simple, safe pilot product
- Established policies and procedures
- Provided intensive training
- Introduced systematically to branches
- Instituted intensive monitoring

Loans: First Product

- Small Trader Loans up to \$ 5,000
- Established businesses
- Focused on inventory financing rather than fixed asset financing
- Short term
- 150% secured by all types of collateral including real estate

Loans: Approval Process

- Visit business
- Verify inventory/security
- Verify cash flow
- Visit home
- Loan officer certifies as to integrity of borrower
- Loan Committee approves

Loans: Subsequent Products

- 2001 – Salary Loans
- 2002 – Pensioner Loans
- 2002 – Herder Loans
- 2002 – Business Term loans
- 2003 – Agricultural Loans
- 2004 – Mortgage Loans
- 2004 – Leasing Loans (Consumer Finance)
- 2005 – Corporate Loans

Loans: Outstanding

(000 USD)

		2006	2005	2004	2003	2002	2001	2000
Business	Number	20,345	19,352	16,753	14,462	11,212	9,296	367
	Amount	87,934	50,874	37,213	26,830	12,769	6,421	181
Consumer	Number	160,669	124,989	100,266	88,233	70,290	21,974	
	Amount	61,780	32,011	19,425	12,632	6,871	1,758	
Agriculture	Number	53,701	33,240	13,676	6,265	3,096	1,349	
	Amount	55,425	27,153	10,420	5,137	2,575	859	
TOTAL	Number	234,715	177,581	130,695	108,960	84,598	32,619	367
	Amount	205,139	110,038	67,058	44,599	22,215	9,038	181
Average Loan Size		\$874	\$620	\$513	\$409	\$263	\$277	\$493

Loans: Disbursements

(000 USD)

		TOTAL	2006	2005	2004	2003	2002	2001	2000
Business	Number	174,520	31,816	33,990	31,412	30,582	28,748	17,600	372
	Amount	381,693	116,012	92,979	75,510	58,044	34,801	4,160	187
Consumer	Number	2,200,615	621,458	486,011	407,561	358,641	310,662	16,282	
	Amount	340,022	131,035	84,880	57,655	41,176	24,227	1,049	
Agriculture	Number	224,875	100,574	67,133	30,002	16,920	9,449	797	
	Amount	180,856	93,124	48,466	20,582	11,719	6,520	445	
TOTAL	Number	2,600,010	753,848	587,134	468,975	406,143	348,859	34,679	372
	Amount	902,571	340,171	226,325	153,747	110,939	65,548	5,654	187

Credit Experience: PAR

	2006	2005	2004	2003	2002
Loan Type					
Business	3.41%	5.38%	6.57%	2.10%	0.75%
Consumer	0.93%	1.12%	1.77%	1.27%	0.58%
Agricultural	0.77%	0.83%	2.19%	1.77%	1.19%
Bank PAR	1.95%	3.02%	4.50%	1.83%	0.75%

Credit Experience: PAR in UB & Rural Branches

	2006	2005	2004	2003	2002
UB	3.33	8.72%	11.06%	2.83%	1.29%
Rural	1.32%	1.37%	2.27%	1.57%	0.71%
Bank	1.95%	3.02%	4.50%	1.83%	0.75%

Other Services

- Deposit services
- Transfer services
- Collection services
- Payment services
- Internet banking (just started)
- SMS banking (about to roll out)
- Pre-paid telephone cards

Deposits at 31-3-2007 (000 USD)

Deposits

- 1,287,224 accounts
- \$ 319,111 million
- \$248 average balance per account

Loans to Deposit Ratio

- 76%

Financial Performance

(000 USD)

	2006	2005	2004	2003	2002
• Loans	205,139	110,037	67,059	44,599	22,216
• Deposits	260,236	150,254	108,150	65,178	40,620
• Total Equity	29,899	14,312	10,589	6,733	3,195
• Pre-Tax Profit	15,306	5,828	3,547	2,893	2,892
• After Tax Profit	10,292	3,807	2,552	1,656	1,671
• ROE	57.3%	36.5%	38.7%	42.3%	52.3%

Mongolian Banks

12/31/06

	All Banks	TDB	Golomt	Khan Bank	Anod
ROA	1.80	3.22	0.88	4.39	0.69
ROE	13.33	22.26	9.80	57.30	7.96

Key Factors 1

- Run as a business not a project
- Experienced & independent management
- Transparency
- Access to a *viable* underserved market
- Adequately funded
- Ability to say NO... Structure, Authority

Key Factors 2

- Product design
- Training
- Branding – Public Image
- Understanding Costs
- Change Management

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Thank You for Listening