



Khan Bank of Mongolia: Reforms and Results

Expanding the Frontiers of
Commercial Microfinance

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Khan Bank History

- 1924 to 1990 - State Bank of Mongolia
Soviet style monobank
- 1991 - Agricultural Bank of Mongolia created:
 - All Assets and Business in Rural Areas
 - 330 Branches
 - 2600 Employees
 - Mostly Bad Loans

Khan Bank History

The Bank was Privatized in 1991, but...

- Did not separate from the Government
- No change in operations
- Governors appointed Branch Managers
- Loans mostly directed by Government
- Placed in receivership February 1999
- By 2000 losses totaled 130% of assets

Compromise Remediation Plan

Under the World Bank FSAC Program...

- Government acquired 100% ownership
- Hired external management
- Appointed an Independent Board
- Agreed to not interfere in operations
- Agreed to privatize after turnaround

Management Contract

- Development Alternatives, Inc. (DAI)
- Two ex-pat managers - CEO, COO
- Four Mongolian Executives
- 400 person days of Consulting Support
- Funded by USAID
- 30 months – \$2.7 million

External Management

- Broad powers
- Full control of the bank, including other donor programs
- Answered only to the Board
- Regulated by the Central Bank
- Regular Reports to WB, USAID, others

Turnaround Objectives

1. Create a Financially Sound Institution
2. Restore Financial Services to Rural Areas
3. Prepare for Privatization

Branches

- Inherited 269 mostly rural offices
- Most were losing money, but...
 - Not much
 - 90% were very low cost
 - No lending or remediation yet
- Found huge franchise value
 - Only bank in remote markets
 - Only network in the country

Branches

Mostly...

- Very small towns—200-500 residents
- Very remote—50-150 k. from next town
- Very poor--\$40 average monthly income
- No internet or on-line communication
- No roads
- 180 have no electricity

Loans

- Ag Bank's track record was terrible
- Donors very apprehensive
- Central Bank warned against lending

Loans...strategy

- Couldn't remediate without loans
- Picked one simple, safe pilot product
- All new policies and procedures
- Intensive training
- Systematically introduced to the system
- Intensive monitoring

People

- Tactically excellent staff
- Long tenure and loyal
- Used to following orders
- Weak at Strategy and saying no

- Harness, don't change the culture
- Quantitative goals, incentive salary

Marketing

- Kept Name but Changed Brand and Image
- KHAN BANK
- New Logo, Colors, Style
- Aggressive Promotion of “New Khan Bank”
- Foreign Management a Plus for Image

Three Surprises

- The “state sector culture” was not a weakness--our staff is a big strength
- There was a huge pent-up demand for financial services
- Mongolians pay back loans that are properly structured

Khan Bank Today

- Number of Branches: 391 (269 in July 2000)
- Ulaanbaatar Branches: 26 (2 in July 2000)
- 24/7 on-line Branches: 79 (0 in July 2000)
- Number of Employees: 1977 (803 in July 2000)
- Person Days of Training: 24,278 (since July 2000)
- New Current Accounts: 325,885 (since July 2000)

At January 31, 2005.

Khan Bank Today

- Total Loans Outstanding – January 31, 2005
 - 152,820 loans
 - \$72.1 million
 - \$472 average loan amount
- Total Loans Disbursed Since July 2000
 - 1,345,401 loans
 - \$360.1 million
 - \$268 average loan amount

After Tax Earnings

2004	\$2,552,000
2003	\$1,655,000
2002	\$1,663,000
2001	\$1,300,000
2000	(\$320,000)
1999	(\$1,680,000)

Mongolian Banks

	All 17 Banks	TDB	Golomt	Khan Bank	Anod
2003 ROA	2.11	1.71	1.39	2.96	1.24
2003 ROE	16.60	23.03	17.02	44.19	14.38

Privatization

- Sold in March 2003 through international tender
 - \$6.85 million purchase price
 - 100% purchased by H.S. Securities of Japan
 - 40% resold to Mongolian group
 - 2004 - IFC, DAI invested 12%
 - DAI Management Contract extended to 2007

3 - 5 Year Plan

- Continue to build rural business
- Expand microbusiness into Ulaanbaatar
- Build Corporate/Institutional Business
- Branch regionally in Northeast Asia
- IPO and list on public exchange