



# Report and Recommendation of the President to the Board of Directors

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Project Number: 41911  
July 2007

## Proposed Loan Mongolia: Khan Bank

In accordance with ADB's public communications policy (PCP, 2005), this abbreviated version of the RRP excludes confidential information and ADB's assessment of project or transaction risk as well as other information referred to in paragraph 126 of the PCP.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 15 April 2007)

Currency Unit – togrog (MNT)

MNT1.00 = \$0.00086

\$1.00 = MNT1,163

## ABBREVIATIONS

ADB	–	Asian Development Bank
CAGR	–	compound average growth rate
CSP	–	country strategy and program
DAI	–	Development Alternatives, Inc.
GDP	–	gross domestic product
H.S. Securities	–	H.S. Securities Company Ltd.
IFC	–	International Finance Corporation
NPL	–	nonperforming loan
PSOD	–	Private Sector Operations Department
ROA	–	return on assets
ROE	–	return on equity
SME	–	small and medium-sized enterprise
TA	–	technical assistance
Tavan Bogd	–	Tavan Bogd Trade Company Ltd.
USAID	–	United States Agency for International Development

## NOTE

In this report, "\$" refers to US dollars.  
Fiscal year is from 1 January to 31 December.

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## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed senior loan of \$10 million to Khan Bank, for the purpose of supporting its US dollar lending activities, particularly to its corporate lending.

## II. BACKGROUND AND RATIONALE

### A. Mongolia's Economy and Banking Sector

2. **Economic Assessment.** Mongolia is experiencing an unprecedented period of strong economic performance. Real gross domestic product (GDP) growth averaged 7.9% over 2003–2005 and rose to 8.4% in 2006, aided by sharp increases in copper and gold prices and a recovery of the livestock herd after three devastating winters. As incomes have grown, the expansion has spilled over to other sectors of the economy including construction, financial services, and the retail sector. After a brief upward spike in 2005, inflation has been brought back down to the mid-single digits (average of 8.4% over 2003–2005 and 6% in 2006), and the budget has moved into surplus (a surplus of 3.9% of GDP in 2006 from a 7.7% deficit in 2000). Strong monetary growth has been buoyed by economic growth, expanding credit, and increasing financial depth. The exchange rate policy of Bank of Mongolia (the central bank) has kept the currency, the tugrik, fairly stable and free of swings over the past 5 years. The balance of payments has been in surplus since 2000, reflecting external assistance, a strong flow of remittances from overseas workers, and moderating trade and current account deficits. International reserves, which were heavily drawn down in late 2003 in connection with the settlement of Mongolia's pre-1991 debt to the Russian Federation, have been reconstituted to more favorable levels. Total external debt has stayed at approximately \$1.6 billion during the period 2004–2006, and most of it is concessional. Mongolia is rated B+/B+ by both Standard & Poor's and Fitch, and Ba2/B2 by Moody's, for foreign and local currency long-term debt (Appendix 1).

3. **Economic Outlook and Challenges.** The medium-term economic outlook for Mongolia is positive—assuming stable commodities prices, continued foreign direct investment inflows, good macroeconomic management, and political stability. Projections are for GDP growth of 7%, inflation of 6%, and a current account surplus of 2% of GDP for the period 2007–2008. Manufacturing, livestock, and services will all contribute to ongoing GDP growth. However, with some large minerals deposits expected to come into production in 2009–2010, the country is on the verge of a potential mining sector boom, which will be a major driver of GDP expansion. Nevertheless, the economy remains susceptible to weather and commodity price shocks, and growth is geographically concentrated with a narrow economic base.

4. **Financial and Banking Sector.** With combined assets amounting to over 80% of GDP and over 90% of financial sector assets in 2006, the banking sector dominates Mongolia's financial sector. The banking sector is comprised of 16 commercial banks, all of which have been privatized, with four having foreign ownership. Following a series of banking crises in 1994, 1996, and 1998, the financial performance of the banks has, in general, improved over the last 3 years and the sector was profitable between 2000 and 2006. The banks generally adhere to Basel Core Principles and are preparing for the adoption of the Basel II accord. The total capital-to-asset ratio of the banking sector increased from below 4% in 1998 to 17% in 2005. Asset quality for the banks has also improved, despite the rapid growth in lending—annual credit grew on average by 81.5% between 2000 and 2005, and by 42% in 2006, primarily driven by economic recovery, a more competitive financial market structure, and foreign capital inflows.

The officially reported nonperforming loans (NPLs) ratio declined from 54% in 1999 to 9% in 2006, while loan loss reserves increased, in line with Bank of Mongolia guidelines. Notwithstanding this improvement, the banking sector remains at an early stage of overall development, as indicated by the fact that most lending remains short-term and collateral-based and interest rates are high, reflecting a shortage of term funding and inadequate credit appraisal systems at many banks (Appendix 2).

## **B. Corporate Lending Trends and Prospects**

5. **Corporate Development in Mongolia.** Recent changes in the income tax regime have created a favorable environment for business consolidation and the growth of larger companies. New tax laws enacted in June 2006 lowered the corporate income tax rate and modified the dual taxation system that until then was inducing companies to split in order to avoid a higher tax bracket. The new regime reduces the two corporate income tax rates from 15% and 30% to 10% and 25%, and also increases the threshold of the higher rate from MNT100 million (\$85,000) to MNT3 billion (\$2.5 million). Many enterprises that officially operated as individual small and medium-sized enterprises (SMEs) in the past to avoid the higher tax rate are now more likely to officially declare their true organizational structure and function as larger companies. There is considerable potential for the development of corporate banking services and financial products that specifically meet the needs of corporate clients.

6. **Lack of Financial Services as a Constraint to Corporate Growth.** Traditionally, banks in Mongolia have concentrated on retail banking and collateral-based lending to small enterprises. Few banks have corporate banking divisions and fewer still have concentrated on developing corporate banking products tailored to the needs of larger corporations. As a result, those larger companies that exist attempt to their meet long-term financing needs with high interest rate, short-term, collateral-based loans and often find it difficult to meet their working capital requirements. With the economy expected to grow substantially over the medium term, Mongolian enterprises are expected to face rapidly growing demand. Without access to efficient financial services, these enterprises will be constrained in their ability to expand and upgrade their operations to meet growing demand, heightening the need for long-term financing to support their growth.

## **III. THE BORROWER**

### **A. Background**

7. Khan Bank was established in 1991 as the Agricultural Cooperative Bank of Mongolia from the assets of the former State Bank, which was liquidated at the end of the communist era. Khan Bank was created with the specific goal of serving the rural sector. During its early years of operation, it faced serious financial problems related to poor management and political favoritism in the disbursement of loans. In 1999, the World Bank made reforming Khan Bank a condition of its Financial Sector Adjustment Credit Program for Mongolia, and the U.S. Agency for International Development (USAID) agreed to provide funds for an outside management contract. In 2000, a contract was signed with Development Alternatives, Inc. (DAI) of Bethesda, Maryland, USA, to manage Khan Bank. Management's mission was to (i) restore financial soundness to Khan Bank, (ii) bring financial services to the country's rural population, and (iii) prepare Khan Bank to operate independently as a precursor to privatization.

8. The Bank was privatized in March 2003, with the purchase of 100% of the shares by H.S. Securities Company Ltd. (H.S. Securities), a Japanese conglomerate. H.S. Securities

subsequently sold 40% of its shares to Tavan Bogd Trade, a local Mongolian conglomerate. In 2004, the International Finance Corporation (IFC) purchased a 9.1% share in Khan Bank and DAI purchased an additional 2.2% share. In 2006, the chief executive officer purchased a 0.3% shareholding in Khan Bank

9. Khan Bank is the main provider of financial services, both retail and business lending, in the rural areas of Mongolia and increasingly in Ulanbaatar where it now has 54 branches and is penetrating the SME and corporate markets. With the largest branch network in the country—440 locations, 88% of which are in rural areas—Khan Bank provides deposit and loan products to almost 80% of the households in Mongolia. Looking to build on its success in the rural sector, its growing penetration in Ulanbaatar and its solid reputation in the market, Khan Bank believes that it is well placed to expand the scope of its operations with the aim of becoming the principal nationwide financial services company in Mongolia in the next 5 years, delivering a full range of banking, investment banking, leasing, securities and possibly insurance services in both rural and urban areas.

#### **IV. THE PROPOSED LOAN**

##### **A. ADB Loan**

10. Khan Bank has identified a need to source US dollar financing in order to expand its US dollar lending activities. ADB proposes to provide a US dollar-denominated senior loan of up to \$10 million to Khan Bank.

##### **B. Main Terms and Conditions**

11. The loan documentation will include financial covenants as well as covenants relating to ADB's policies.<sup>1</sup> ADB will ensure that its rights to accelerate and enforce its debt will be triggered under cross-default provisions with any outstanding debt facility.

##### **C. Provision of Technical Assistance**

12. ADB will consider the possibility of including Khan Bank under ADB's regional technical assistance (TA) Capacity Building for Financial Institutions program.<sup>2</sup> Possible areas of assistance under the TA would be capacity building for internal control procedures.

#### **V. INVESTMENT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS**

##### **A. Justification of ADB Loan**

###### **1. Investment Objective**

13. ADB's objective in the proposed transaction is to improve financial sector efficiency and depth, and contribute to the diversification of the Mongolian economy. The growth of larger corporations is essential to the sustainable diversification of the economy. The growth of

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<sup>1</sup> These covenants include (i) compliance with ADB's environmental and social safeguard policies; (ii) compliance with ADB's policies to combat money laundering, terrorism financing, and corruption; (iii) the maintenance of adequate debt service coverage ratio, accounts receivables, and total liabilities to net worth ratio; and (iv) a negative pledge on Khan Bank's existing assets.

<sup>2</sup> ADB. 2006. *Technical Assistance for Capacity Building for Financial Institutions*. Manila.

corporations is conditional on the availability of corporate lending services and financial services that meet the specific needs of larger companies.

## **2. Project Outcome**

14. **Expansion of Corporate Banking Activity.** The growth of Mongolian enterprises to optimal size is constrained by the availability of term lending and financial services. The outcome of ADB's proposed loan will be to expand corporate banking activity and provide the needed financial services to allow the growth of Mongolian enterprises to optimal size.

## **3. Value Added of ADB**

15. ADB's proposed loan will add value by enabling Khan Bank to offer longer maturities and grow its corporate banking business.

## **4. Design and Monitoring Framework**

16. ADB will measure the expected development impact of the loans. The performance measures will follow the multilateral development banks' Evaluation Cooperation Group's Standards for Evaluation of Private Sector Investment Operations. Development impact will be measured in three distinct categories: (i) private sector development, (ii) business performance, and (iii) economic sustainability (Appendix 9).

## **5. Fit to Sector and Country Strategy**

17. One of the two pillars of ADB's country strategy and program (CSP) for Mongolia<sup>3</sup> approved in 2005 aims to diversify the sources of growth. The CSP explicitly aims to develop a sound financial system with improved efficiency and outreach. The proposed loan will contribute directly to the implementation of the CSP by strengthening financial intermediation for businesses and fostering economic diversification. The ADB intervention assists in deepening financial markets and providing long-term finance that meets the needs of entities that are most likely to provide much-needed diversification of the Mongolian economy.

18. ADB's public sector operations for Mongolia also support the objectives described in this section through projects including the Financial Regulation and Governance Program Loan<sup>4</sup> and TA provided in association with the program, including assistance aimed at capacity building of the Financial Regulatory Commission. The Agriculture and Rural Development Project<sup>5</sup> currently under preparation expects to develop the export capacity of larger agro-processing enterprises, and the availability of adequate financial services will be crucial to the sustainable development of these enterprises. The proposed loan is therefore also in line with activities currently undertaken by the East Asia Regional Department of ADB.

## **B. Social and Environmental Safeguard Policies**

19. The proposed loan has been assigned an "FI" environmental classification and a "C" with respect to indigenous people and resettlement. Khan Bank will be required to establish an environmental management system, within a timeframe to be specified, following the prescribed

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<sup>3</sup> ADB. 2005. *Mongolia: Country Strategy and Program (2006–2008)*. Manila.

<sup>4</sup> ADB. 2005. *Mongolia: Financial Regulation and Governance Program*. Manila.

<sup>5</sup> ADB. 2006. *Technical Assistance to Mongolia for Preparing the Agriculture and Rural Development Project*. Manila

guidelines and setting out detailed screening and assessment mechanics. (ADB will review and approve the developed EMS.) Further, Khan Bank will build capacity for implementing it in accordance with its specific business needs and with the help of ADB, and will send at least one Khan Bank officer to attend an ADB-sponsored environmental management training.

20. Given Khan Bank's lengthy relationship with IFC, the Bank is familiar with the concept of an EMS, and has guidelines in place to help it in developing one appropriate to its business and needs. The Bank is also interested in participating in ADB's EMS training program.

### **C. Anticorruption Policy: Combating Money Laundering and the Financing of Terrorism**

21. Khan Bank was advised of ADB's *Anticorruption Policy* (1998, as amended to date) and policy relating to Combating Money Laundering and the Financing of Terrorism<sup>6</sup>. Consistent with its commitment to good governance, accountability, and transparency, ADB will require Khan Bank to institute, maintain, and comply with internal procedures and controls following international best practice standards for the purpose of preventing corruption or money laundering activities or the financing of terrorism. Further, Khan Bank will be required to covenant with ADB to refrain from engaging in such activities. The documentation between ADB and Khan Bank will further allow ADB to investigate any violation or potential violation of these undertakings.

## **VI. ASSURANCES**

22. The proposed loan would, once approved by the Board, represent 69% of ADB's total non-sovereign exposure<sup>7</sup> in Mongolia, and would increase its investment in (i) Mongolia from 0.19% to 0.45%, and (ii) exposure in banking systems from 22.79% to 22.83%. The proposed investment is within ADB's aggregate, country, industry, group, and single project exposure limits for non-sovereign investments.

23. ADB will enter into suitable loan agreements following approval of the proposed financing by ADB's Board of Directors. These agreements will be on terms and conditions satisfactory to ADB.

24. Consistent with the Agreement Establishing the Asian Development Bank, the Mongolian Government will be requested to confirm that it has no objection to the proposed ADB loan to Khan Bank. No loan will be disbursed until ADB receives such confirmation.

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<sup>6</sup> ADB. 2003. *Combating Money Laundering and the Financing of Terrorism*. Manila.

<sup>7</sup> Exposure refers to drawn and undrawn portions of the PSOD's committed loan, equity investments, and guarantees as of 31 December 2005. An investment is considered committed when the legal agreements are signed.

## VII. RECOMMENDATION

25. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of up to \$10,000,000 to Khan Bank from ADB's ordinary capital resources, with interest to be determined based on the procedures applicable to ADB's private sector operations and such other terms and conditions as are substantially in accordance with those set forth in this report and as may be reported to the Board.

Haruhiko Kuroda  
President

10 July 2007

## MONGOLIAN ECONOMIC ASSESSMENT

26. **Gross Domestic Product.** Recent economic performance has been very robust, with strong, broad-based growth, declining inflation, growing budget and balance of payments surpluses, and improving confidence in the banking system. Real gross domestic product (GDP) is estimated to have risen by 8.4% in 2006, higher than the average pace achieved during 2002–2005. The minerals sector has been a key engine of growth, supported by record high prices for copper and gold; some increases in production volumes; and investment at the new Ivanhoe copper and gold mine, which has not yet come on stream. Outside the mining sector, growth has also been supported by favorable weather conditions, buoyant residential and commercial construction, and rapid growth in financial services. Growth is projected at about 7% in 2007.

27. **Inflation.** After spiking higher in the first half of 2005, inflation has since slowed to a moderate rate. The year-on-year inflation rate jumped from 10.5% in December 2004 to 17.5% in June 2005, partly because of a temporary shortage in the supply of meat which sent prices soaring. As the supply shock was reversed, inflation declined to 1.8% (year-on-year) in July 2006, the lowest level in 4 years. Inflation subsequently registered 5.1% for 2006.

28. **Fiscal Indicators.** The fiscal position has improved markedly in recent years, driven by the rapid increase in copper prices and by faster-than-expected economic growth. The overall budget balance shifted from a deficit of 4% of GDP in 2003 to a surplus of 3% in 2005 and 3.9% in 2006. Underlying the dramatic improvement in fiscal performance has been a sevenfold increase in mining revenues between 2003 and 2006 caused by (i) sharply higher copper and gold prices, and (ii) the imposition of a new windfall tax on copper and gold in June 2006. Meanwhile, total expenditure has fallen from 42% of GDP in 2003 to an estimated 31.5% in 2006, despite the 2006 introduction of a 30% wage increase and an expansion of social welfare transfers. Delays in the execution of some investment projects also slowed the pace of spending. As fiscal performance has improved, the net present value of public debt dropped from 80% of GDP at the end of 2003 to 45% at the end of 2005. As of year-end 2006, it fell further to 35%.

29. **Monetary Developments.** Monetary aggregates have been growing rapidly. Reserve money growth picked up from 20% (year-on-year) in December 2005 to 27% in September 2006. The acceleration in reserve money reflected strong foreign exchange inflows, which more than offset a substantial decline in net central bank credit to government. For the banking system as a whole, broad money increased by 35% in 2006. Net domestic assets of the banking system declined in 2006, as a sharp drop in net credit to government exceeded the impact of rapid growth in credit to the private sector. The subdued response to date of inflation to the rapid monetary growth reflects an ongoing process of re-intermediation as (i) incomes have risen, (ii) confidence in the banking system has improved, and (iii) the gradual appreciation of the exchange rate has helped to restrain the prices of imported goods.

30. **External Developments.** The current account was in surplus for the third consecutive year in 2006, and is expected to be about 2% in 2007 and 2008. The increase in the surplus has been driven by a marked improvement in the terms of trade, which more than offset a rise in import volume growth and higher investment income payments. With increased inflows of direct investment in the mining sector and a recovery in disbursements of concessional official loans, gross international reserves reached \$687.3 million (5 months of imports of goods and services)

as of year-end 2006, while the net present value of external public debt fell to 32% of GDP, half the level at year-end 2003.

31. **Exchange Rate.** Exchange rate developments have reflected the improvements in the terms of trade and capital inflows. The real effective exchange rate of the togrog has appreciated by about 18% since the end of 2004. In terms of the US dollar, the togrog depreciated by 0.5% in 2005 but appreciated by 4% during the course of 2006.

## BANKING SECTOR OVERVIEW AND PEER ANALYSIS

### A. Background

1. With combined assets amounting to over 80% of gross domestic product (GDP) and over 90% of financial sector assets, the banking sector dominates Mongolia's financial sector. The sector has evolved since transition and has recently experienced considerable growth. After a number of crises and bank failures after transition—most severely in 1994, 1996, and 1998–1999—the stock of bank lending had remained in a range of MNT30 billion–MNT40 billion up to 2000. Since 2001, however, loan growth has risen substantially upon completion of substantial banking sector reforms.<sup>1</sup> The total capital-to-asset ratio of the banking sector has increased from below 4% in 1998 to 17% in 2005. Annual credit grew on average by 81.5% between 2000 and 2005, and by 42% in 2006, primarily driven by economic recovery, a more competitive financial market structure, and foreign capital inflows. All 16 commercial banks have been privatized, with four have foreign ownership. Financial performance of banks in general has improved in the last 3 years, and the sector was profitable during 2000–2006.

### B. Regulation and Supervision

2. The Banking Law, enacted in 1996 and amended a number of times since, provides the legal basis for the Bank of Mongolia to regulate and supervise the banking sector. The Bank of Mongolia's supervisory capacity over the banking sector, just as its role as the regulator, was extremely weak for several years. However, with the assistance of the International Monetary Fund, the Bank of Mongolia has made substantial progress in strengthening its supervisory and regulatory capacities. As part of this process, the Bank of Mongolia has implemented several reform measures. Among the most significant of the reform measures has been the gradual increase in the minimum capital requirement for banks (minimum paid-in capital doubled from MNT4 billion to MNT8 billion) and the strengthening of loan provisioning. There is now general adherence to Basel Core Principles. Preparation for the adoption of the Basel II accord is ongoing.

3. Bank of Mongolia prudential regulations are summarized in Table A2.1.

**Table A2.1: Bank of Mongolia Prudential Regulations**

<b>Capital Adequacy</b>	Tier I capital to net risk-weighted assets (5%) Capital to net risk-weighted assets (10%) Tier I capital to total assets (5%)
<b>Borrower Limits:</b>  Single Borrower Related Party Aggregate Related Party	20% of bank capital 5% of bank capital 20% of bank capital
<b>Asset Quality: Classifications and Provisioning</b>	<b>Provision:</b>
In Arrears (up to 90 days past due)	5%
Substandard (91–180 days past due)	40%
Doubtful (181–270 days past due)	75%
Loss (>270 days past due)	100%

<sup>1</sup> These included the restructuring of ailing banks, improvements in banking sector skills, accounting standards, the Government distancing itself from the banking sector, and foreign participation in the banking industry.

<b>Liquidity</b>	Ratio of fixed assets <8%
<b>Foreign Exchange Risk</b>	Prudential ratio of foreign assets and liabilities: For a given currency (+/-15%) For total foreign currency (+/-40%)

Source: Bank of Mongolia.

**C. Peer Analysis**

4. The Mongolian banking industry is evolving into a two-tier system, consisting of a group of larger banks with strong shareholder support (most with foreign ownership) and a collection of smaller, mainly locally owned banks, some of which will have difficulty competing as they are undersized and under-matched. Khan Bank is considered one of four top-tier banks together with Trade and Development Bank, Golomt Bank, and Anod Bank. Of the smaller second-tier banks, XAC Bank, Savings Bank, and Post Bank compete with Khan Bank in the rural sector.

5. Trade and Development Bank is the largest bank in Mongolia in terms of total assets and is rated Ba2 by Moody’s. Primarily a corporate bank, its competitive position could be further bolstered because of a recent ownership change that could prompt a merger with two other banks—UB City Bank and Capitron Bank—and expand its position in the small and medium-sized enterprise (SME) market. The Bank of Mongolia is, however, scrutinizing the transaction as to the source of funds applied to the purchase. Golomt Bank, also a largely corporate-based bank, is aggressively expanding its Ulaanbaatar business, but it lacks a strong retail network. Anod Bank is suffering from periodic liquidity problems and recent growth has been poor.

6. Of the smaller banks, XAC Bank, which has largely focused on microfinance in the past, is making a push into the SME market. XAC Bank has a well-managed franchise network in the rural regions, strong profitability, and a solid capital position with superior asset quality. It is rated Ba2 by Moody’s. However, its true performance is uncertain because of its diverse sources of funds and donor support. Key peer comparison tables are presented below in Table A2.2 and Table A2.3.

## DESIGN AND MONITORING FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets/Indicators</b>	<b>Data Sources/Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Impact</b></p> <p>The GDP composition of the Mongolian economy is more diversified (i.e., the development of mid-size and larger enterprises will contribute to improvement in financial sector efficiency and deepening, as well as a more diversified economy)</p>	<ul style="list-style-type: none"> <li>Percentage of GDP contributed by mid-sized and larger companies increases by 30% over the next 5 years</li> </ul>	<ul style="list-style-type: none"> <li>Bank of Mongolia statistics</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Increased access for companies to Bank financing will lead to growth of companies to optimal size for increased efficiency and an expanded role in the economy</li> <li>Stable or increased economic development in Mongolia</li> </ul>
<p><b>Outcome</b></p> <p>Khan Bank provides increased, sustainable access to financing for all sizes of businesses</p>	<ul style="list-style-type: none"> <li>Khan Bank's number of business borrowers increases (10% in next 12 months)</li> <li>Khan Bank's credit quality is high, NPL level less than 5%</li> <li>Khan Bank's ROE stays above 15%</li> <li>Khan Bank's CAR remains above Bank of Mongolia norms</li> </ul>	<ul style="list-style-type: none"> <li>Khan Bank's quarterly and annual financial statements</li> <li>Reporting specifically requested by ADB</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Demand exists for loans</li> <li>Khan Bank does not breach domestic prudential / NBA norms</li> <li>No adverse economic developments in Mongolia</li> <li>No regulatory changes for banking</li> <li>No other exogenous factors have a negative impact on banking development</li> </ul>
<p><b>Outputs</b></p> <ul style="list-style-type: none"> <li>ADB provides senior loan</li> <li>Khan Bank operationalizes use of loan</li> </ul>	<ul style="list-style-type: none"> <li>Loan requests received by Khan Bank from businesses increase by 25% per annum from current levels</li> </ul>	<ul style="list-style-type: none"> <li>Khan Bank's quarterly and annual financial statements</li> <li>Reporting specifically requested by ADB</li> </ul>	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>Prevailing market conditions are stable</li> <li>All regulatory approvals in place for ADB</li> </ul>

<b>Activities with Milestones</b>	<b>Inputs</b>
<p>1.1 Provide Khan Bank with a \$10 million senior loan by July 2007.</p> <ul style="list-style-type: none"> <li>• ADB and Khan Bank enter into loan agreement</li> </ul> <p>1.2 Operationalization of proceeds of senior loan by Khan Bank (ongoing).</p> <ul style="list-style-type: none"> <li>• Origination of (new) client opportunities</li> <li>• Due diligence on clients</li> <li>• Completion of loan agreements with clients</li> <li>• Disbursement of loans to clients</li> </ul>	<ul style="list-style-type: none"> <li>• ADB: \$10 million</li> </ul>

ADB = Asian Development Bank, CAR = capital adequacy ratio, GDP = gross domestic product, NPL = nonperforming loan, SMEs = small and medium-sized enterprises,

