

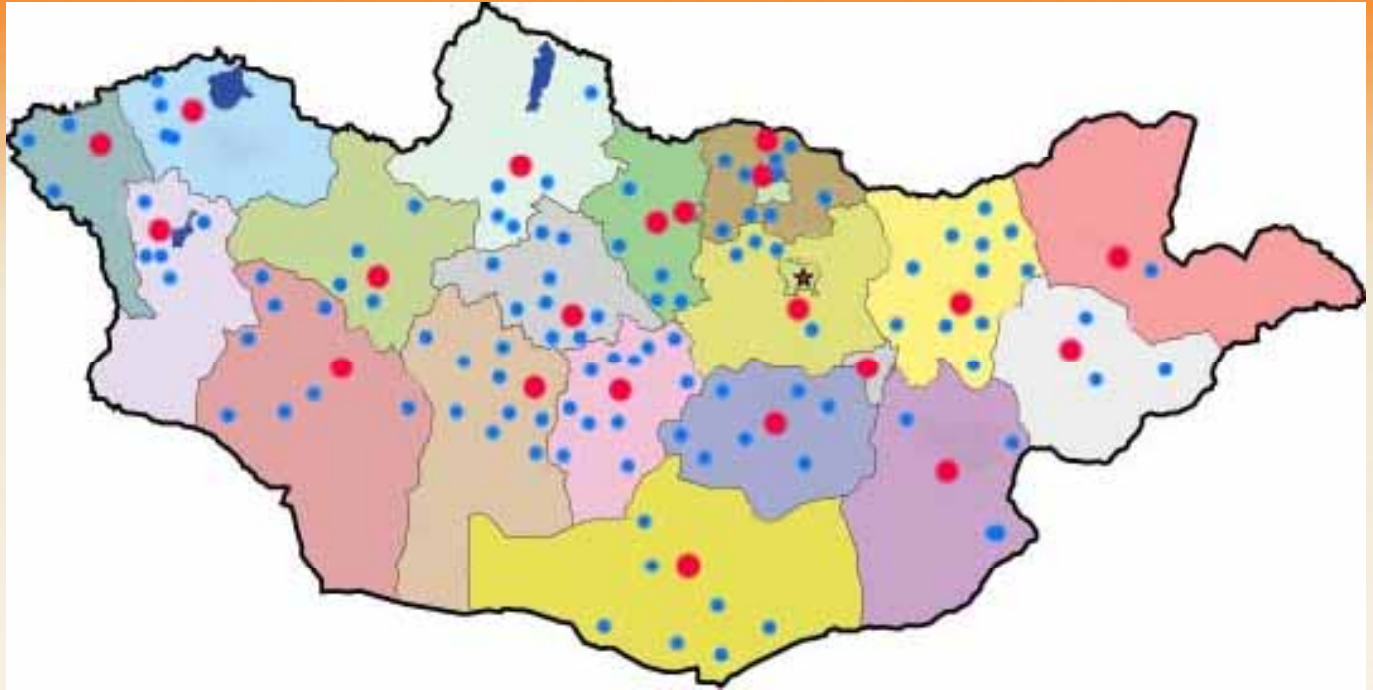
# LEADING CHANGE

For the conference: **Improved Access to Financial Services**

*Bringing Microfinance to Scale in Cambodia*

**Ganhuyag Ch. Hutagt**  
**CEO**

# MONGOLIA: Country Profile



● *Aymag branches* ● *Soums, where XacBank is active*

- Landscale: 1.56 million sq km, the size of Western Europe
- Population: 2.6 million
  - *39.1 % in rural areas*
  - *32.2 % poverty rate*

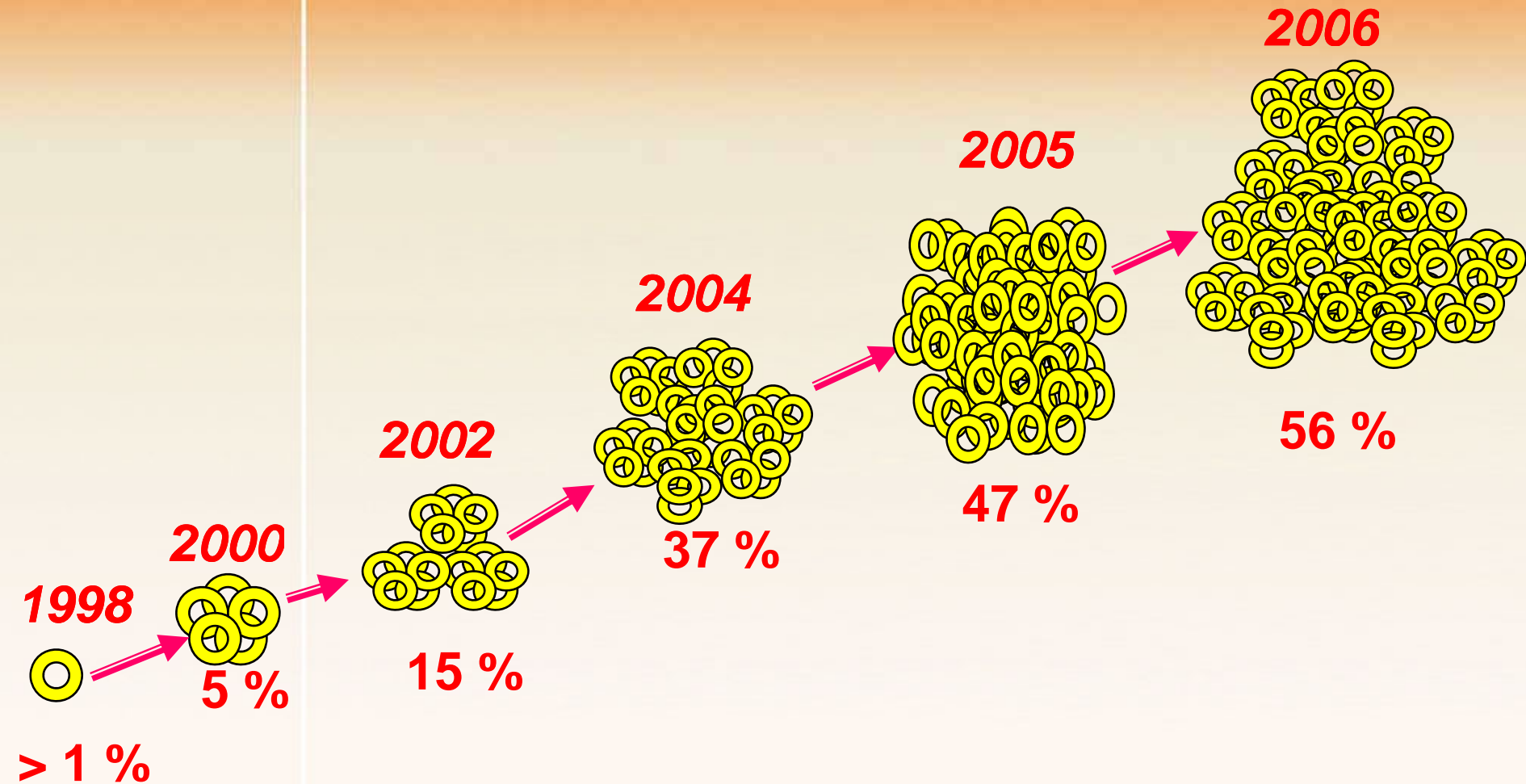
# TAKE OFF: 1996-1998

- ❖ Commercial Banks: 12 Banks closed down with an estimated 40 % of all bank loans classified as non performing in 1998
- ❖ Non Bank Financial Institutions: First 7 NBFIs registered in 1998-1999
- ❖ Savings and Credit Cooperatives: First SCC registered in 1996
- ❖ Pawnshops charging up to 30 % per month
- ❖ Donor-driven lending projects and government directed lending through banks

# TODAY IN MONGOLIA

❖ Commercial Banks	16
❖ Savings and Credit Cooperatives	128 (700)
❖ Non-Bank Financial Institutions	162
❖ Pawnshops	800
❖ Insurance Companies	14
❖ Financial Leasing Companies	13

# OUTREACH IN MONGOLIA



# XACBANK

**EXPERIENCE  
IN TRANSFORMATION**

**FROM  
A DEVELOPMENT PROJECT  
TO  
A COMMERCIAL BANK**

# MISSION



**First,** to contribute to the Socio-Economic development of the country by providing access to comprehensive financial services to all citizens and legal entities, including those who are normally excluded, e.g. low-income and remote rural households.



**Second,** but equally important, to maximize the value of shareholders' investment, while creating a profitable and sustainable financial institution.

# HISTORICAL HIGHLIGHTS

Nov 07

Two **IFIs** as new shareholders

Jul 05

Attracted three **international investors**

Dec 01

Received its **banking license**

Oct 01

**Merger agreement signed**

Sep 00

**Merger discussions initiated**

Apr 00

**Goviin Ehlel LLC–licensed** (Mercy Corps, USAID)

Sep 99

**X.A.C. LLC** was licensed as the **first NBFi** in Mongolia

Sep 98

**X.A.C. - started** under UNDP **MicroStart-Mongolia** project

# WHY MERGER?

- ❖ Commercial bank capital hurdle
- ❖ Mounting competitive pressure
- ❖ Complimentary product lines
- ❖ Complimentary geographic coverage
- ❖ Economies of scale and scope
- ❖ Similar mission of double bottom-line
- ❖ Same vision of transforming into a bank
- ❖ One competitor less to worry about!

# WHY BANK?

- ❖ Wider access to local funding sources
- ❖ Increased leverage (economy of scale)
- ❖ Greater outreach in shorter period
- ❖ Savings as a vehicle to fully achieve the mission
- ❖ Economies of scope (product diversity)
- ❖ Increased competitiveness and viability
- ❖ Better service to the customer
- ❖ More credibility in the market
- ❖ More attractive to investors

# LESSONS LEARNED

- ❖ Negotiations take time and efforts and are distractive to running of the institution
- ❖ Fraud in one branch – do not lose focus on operations during the transformation process
- ❖ Co-CEOs do not work well however well-intended
- ❖ MIS transition is costly and time consuming albeit of utmost importance in the long run
- ❖ Transformation costs are high and not obvious
- ❖ Merging cultures is difficult – people's merger
- ❖ Resistance to change (internal and external)

# COSTS, COSTS AND COSTS...

- ❖ Regulatory costs (start-up and on-going)
- ❖ Physical set-up investments (e.g. security, image of stability)
- ❖ Cost of funds (interest paid on deposits)
- ❖ Marketing (portraying a different image)
- ❖ Investment into MIS (increasing volumes)
- ❖ New skills required (professional bankers)
- ❖ HR costs (staff turnover)

# TRANSFORMATION... (R)EVOLUTION ...

- ❖ The competition will inevitably intensify  
make a decision at a right time
- ❖ The biggest decision to ever make – cannot  
afford to make a mistake
- ❖ However, the decision cannot be avoided
- ❖ Implementation is costly and time  
consuming
- ❖ If done right results are rewarding but  
cannot get complacent as there are even  
more challenges to over come

**BUT WAS IT WORTH IT?**

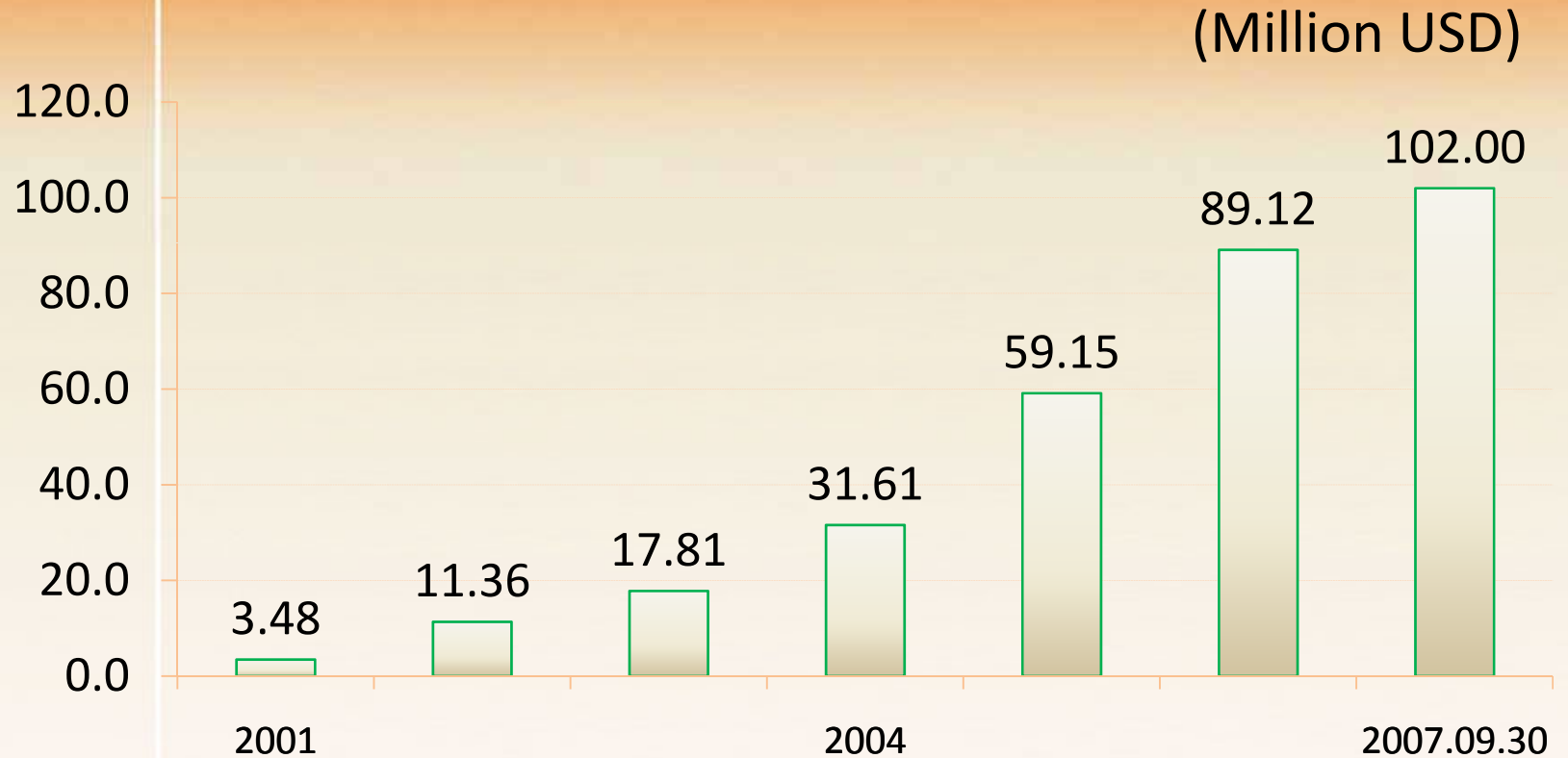
# SOME EVENTS & FEW FACTS



- ❖ 59,000 active borrowers
- ❖ Visit and FT award by the Dutch Royalties
- ❖ International consulting
- ❖ Rated by PlanetRating
- ❖ Rated by Moody's rating
- ❖ 34 thousand XacMasterCard holders
- ❖ 78 franchisee savings and loan cooperatives
- ❖ FIFA World Cup sponsorship
- ❖ MNT 1.9 billion in profits (3<sup>rd</sup> Q 2007)
- ❖ Participation in Morgan Stanley deal



# TOTAL ASSETS GROWTH



# BORROWER STATISTICS

- ❖ Average loan size **USD 1,260.0**
- ❖ 0- 420 USD 43.0%
- ❖ 0- 1,700 USD 81.0%
- ❖ 0- 4,200 USD 93.0%

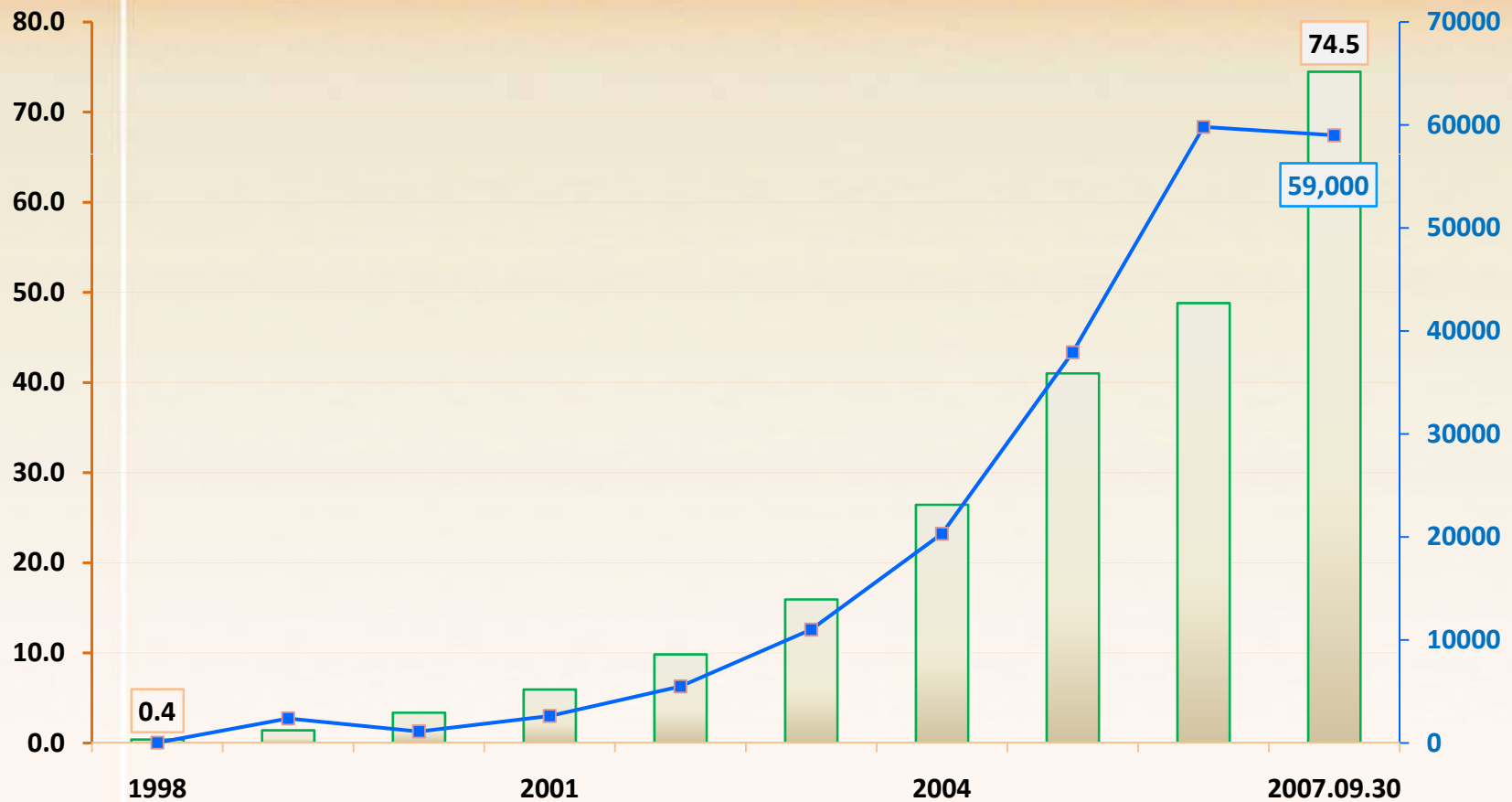


- ❖ Woman borrowers: **50.7%**
- ❖ Rural borrowers: **64.1%**

# LOAN GROWTH STATISTICS

Loan Portfolio (Million USD)

Number of Borrowers



# PORTFOLIO QUALITY



# RECOGNITION & AWARDS



- ❖ “Top Corporate Social Responsibility”, MNCCI, 2006
- ❖ “Best Corporate Governance”, MNCCI, 2006
- ❖ Financial Transparency Award, 2004, 2005, 2006
- ❖ CGAP PPIC award, “Innovative Microfinance Product”, UNDP, 2005
- ❖ “Five Diamonds”, The MIXMarket, 2004
- ❖ “A” Rating, PlanetRating, 2004, 2006
- ❖ “Best Company”, Mongolian National Chamber of Commerce and Industry (MNCCI), 2003, 2004
- ❖ “Best Manager in Banking”, MNCCI, 2003
- ❖ “Best Supporter of Small and Medium Enterprises”, MNCCI, 2001
- ❖ “Best Manager in Finance”, MNCCI, 2000

# STRATEGIC INVESTORS AND PARTNERS



# XACBANK IS PIONEERING:

- ❖ First among Mongolian commercial banks to meet the international standards in financial reporting (CGAP Awards 2004, 2005, 2006)
- ❖ First Mongolian bank to commit to sustainability reporting (to apply GRI Sustainability Reporting Guidelines in its 2006 AR)
- ❖ First commercial bank to request and receive high international rating scores (Planet Rating 2004, 2006, Moody's Investor Service rating 2006)

Today XacBank is  
the Dynamic Leader  
of Change  
in Corporate Behavior  
and  
Social Responsibility