



Financing Investment in Mongolia

Europe – Mongolia Investors' Forum

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EBRD Headquarters, London

December 3, 2009



Mongolia



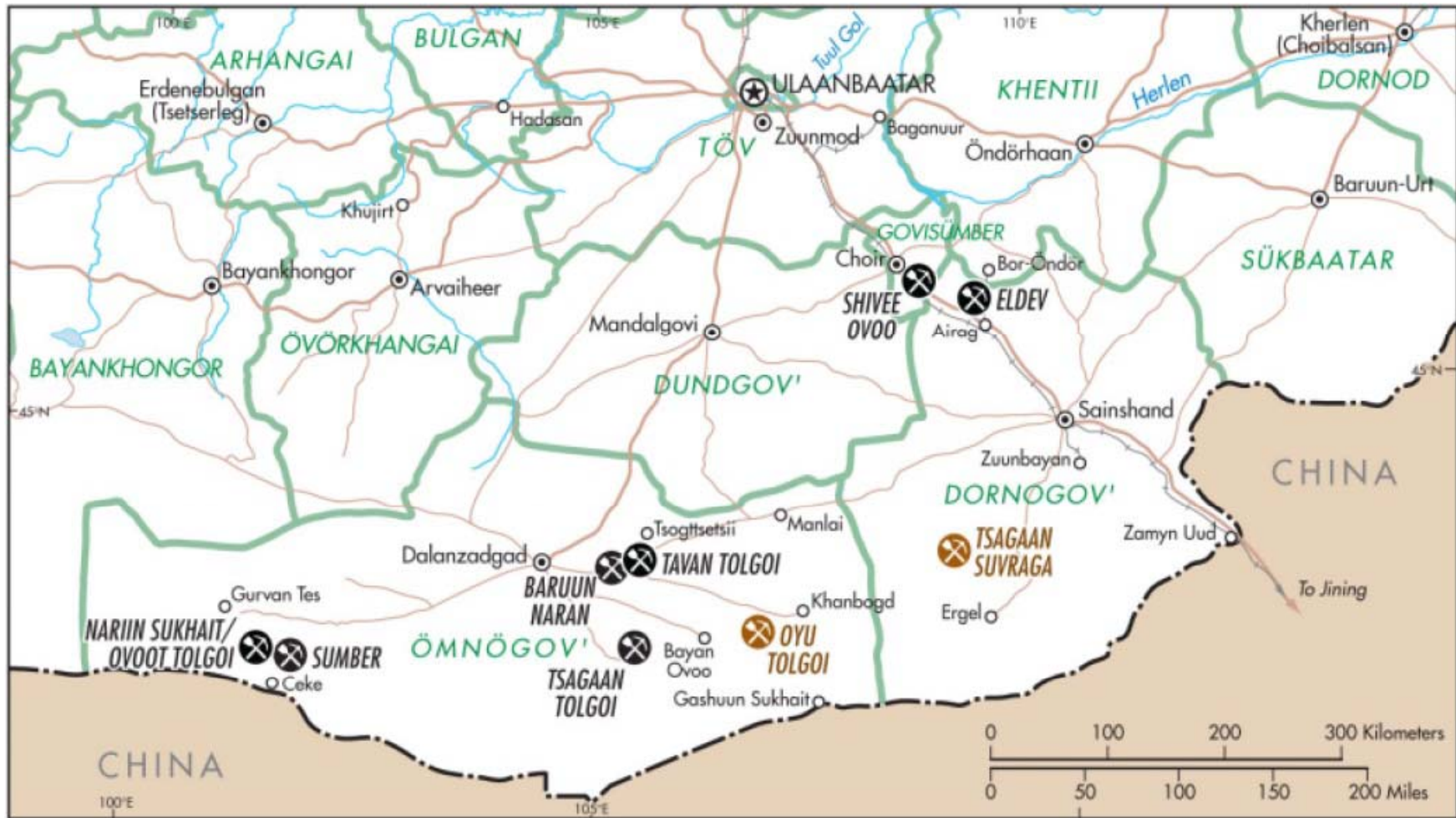
Wedged between two powerful neighbors

With a vast market close at hand, Mongolia seeks the help of these two, plus third neighbors, to help make it happen.

Scope of presentation

- Magnitude of future investment needs, by sector
- Mining
- Infrastructure
- Environment
- Social
- Agriculture and Industry
- Sources of finance
 - Domestic
 - Foreign
- TDB's role and capabilities

Focus on South Gobi



Source: World Bank

Major South Gobi opportunities

Mine	Mineral	Life (years)	Production (‘000 tons/year)	Employment Estimate	Start date Estimate
Tavan Tolgoi	Coal	200+	15,000	1500	2012
Uhaahudag	Coal	40	10,000	1000	2009
Baruun Naran	Coal	20	6,000	500	2012
Tsagaan Tolgoi	Coal	20	2,000	150	2015
Nariin Sukhait	Coal	40	12,000	150	2003
Ovoot Tolgoi	Coal	50	5,000	400	2008
Sumber	Coal	50	5,000	400	2015
Shivee Ovoo	Coal	200+	14,000	600	2015
Oyu Tolgoi*	Copper	50	2,000	4000	2012
Tsagaan Suvraga*	Copper	20	250	1000	2012
Total				9700	

* Production figure is for copper concentrate (30% copper)

Source: World Bank

Storyline

- **Copper: OT investment \$4 billion**
- **\$2 billion annual revs. (Net: \$0.5- \$1 bn.)**
- **Coal: TT and other investment \$1-\$2 billion**
- **\$3 billion annual revs. (Net: \$ 1.4 billion)**
- **Gold, Zinc, Iron, Fluorspar, Uranium, Petroleum investment \$2+ billion**
- **\$2+ billion annual revs. Net: \$0.5 billion**

Storyline (cont.)

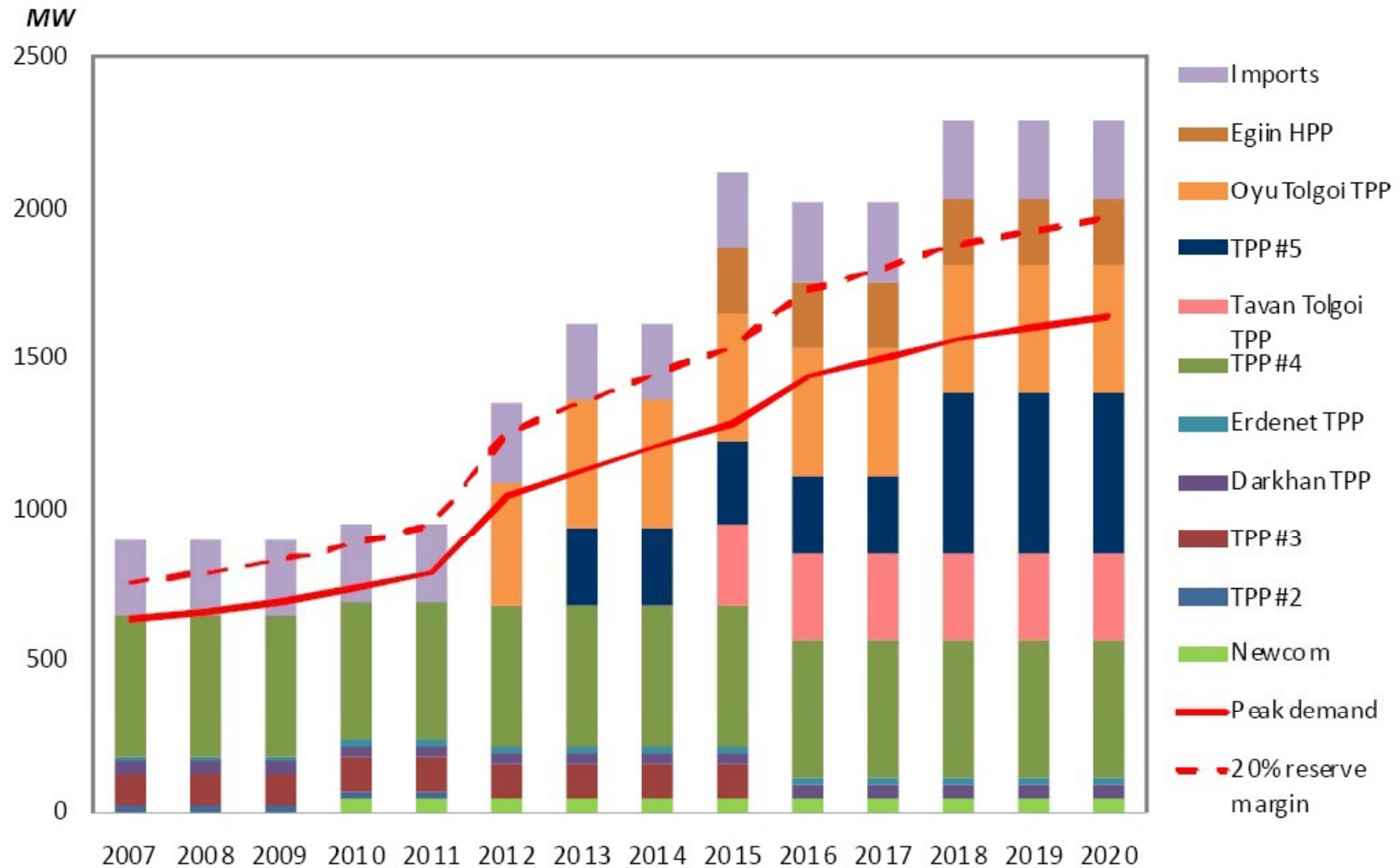
- **GDP of Mongolia to double within 5 years**
- **Growing GDP lifts Mongolian people out of poverty**
- **Mongolia eventually becomes a wealthy country along the lines of Norway or Qatar**

How to get there

Challenges and Opportunities

- **Infrastructure:**
 - Power**
 - Railroads**
 - Roads**
 - Urban Development**
 - Water**
- **Social**
- **Environment**
- **Agriculture and Industry**

Power

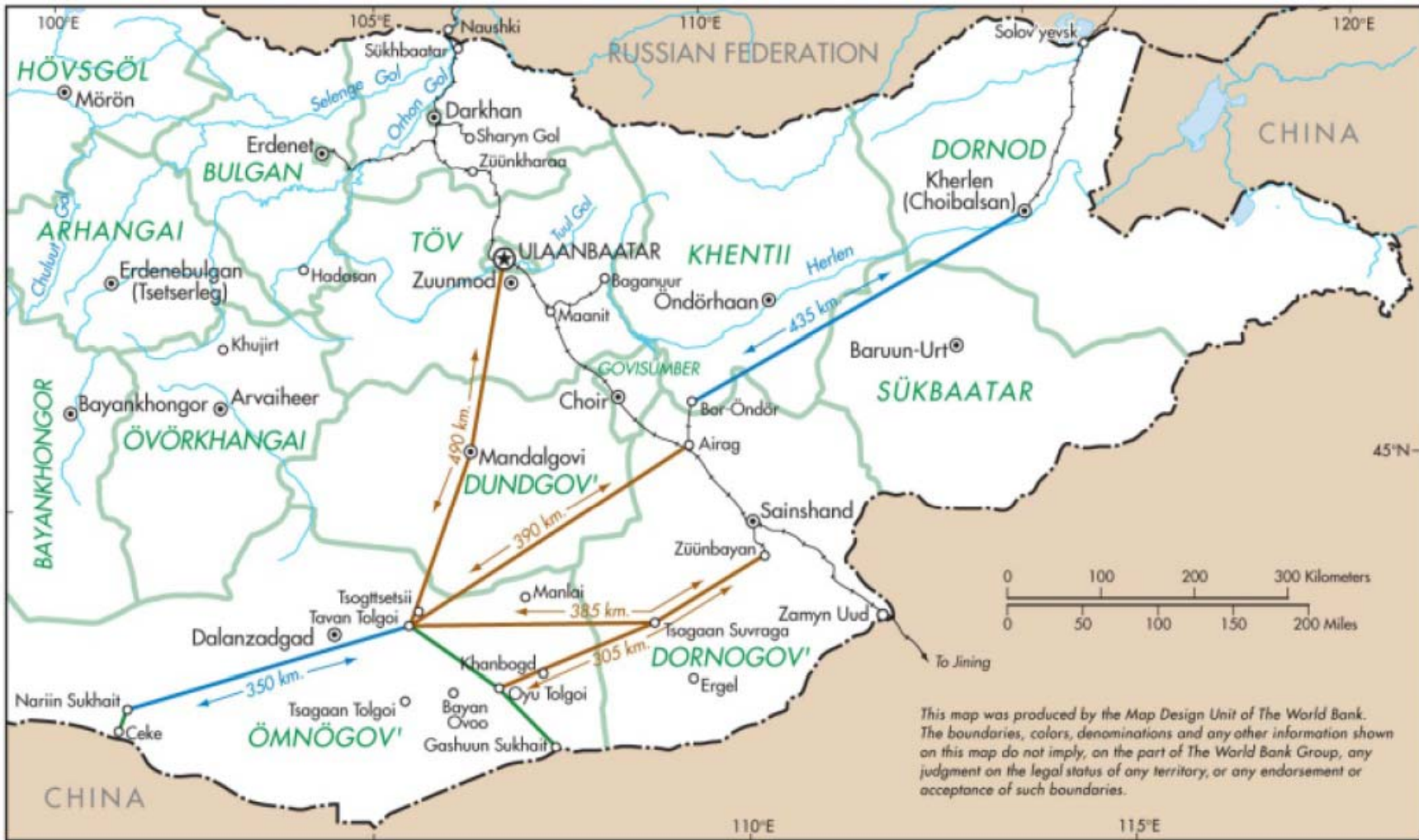


Source: World Bank

Power

- **Need to double capacity in next five years**
- **\$2.2 billion investment needed**
- **Tariffs need to increase 30%-60%**
- **Mine site plants can be project financed**
- **Financing of UB plants?**
- **IFIs can help**

Railroad



Source: World Bank

Railroad

- **Line from TT to Chinese border \$687 mn. Financing from China**
- **Line from Nariin Sukhait to Chinese border \$250 mn. Financing from China**
- **Other lines from mines to mainline or UB \$1-\$1.5 bn each. Financing from Russia?**

Roads



Note: dashed lines indicate that the alignment has not been precisely defined.

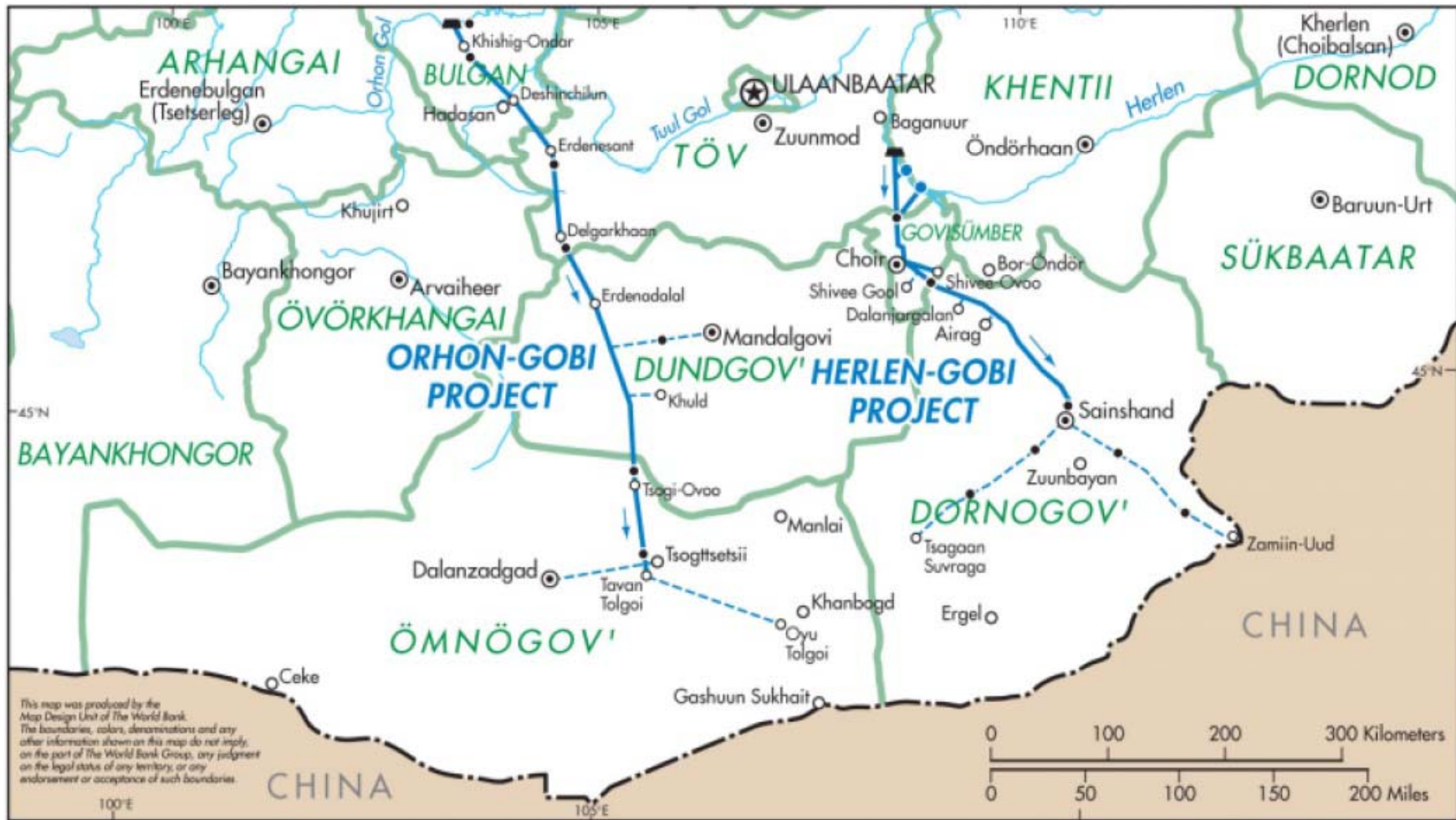
South Gobi: 1000 km. \$300 million
Elsewhere: 2000 km. \$700 million

Source: World Bank

Urban development

- **UB and major cities: 100,000 housing units: \$5 billion**
- **Cities needed in South Gobi as population triples to 120,000: \$1 billion**
- **Other Urban development needs: \$1 billion**

Water



Source: World Bank

Water

- **Water resources for South Gobi:
\$300 million for ground water**
- **Diverting from elsewhere:
Estimated \$400 to \$500 million**
- **UB needs: ?**

Environment

- Land degradation
- Mine Reclamation
- Pollution
- Grazing access
- Overgrazing
- Deforestation
- Water quality
- Costs to address: \$1-\$2 billion

Social

- **Education**
- **Migration**
- **Foreign labor**
- **Community involvement**
- **Wealth distribution**
- **Health**
- **Estimated costs: \$1 billion**

Agriculture and Industry

- **Grain self sufficiency**
- **Value added processing**
 - Agribusiness**
 - Smelting**
 - Coal gasification**
- **Estimated costs: \$2 billion**

Summary of Investment needs

• Major mines	\$7 billion – \$10 billion
• Power	\$2 billion
• Railroads	\$4 billion
• Roads	\$1 billion
• Urban Devel.	\$7 billion
• Water	\$0.5 billion
• Environment	\$1.5 billion
• Social	\$1 billion
• Business Capex	\$6 billion – \$8 billion

Total	\$30 billion - \$35 billion

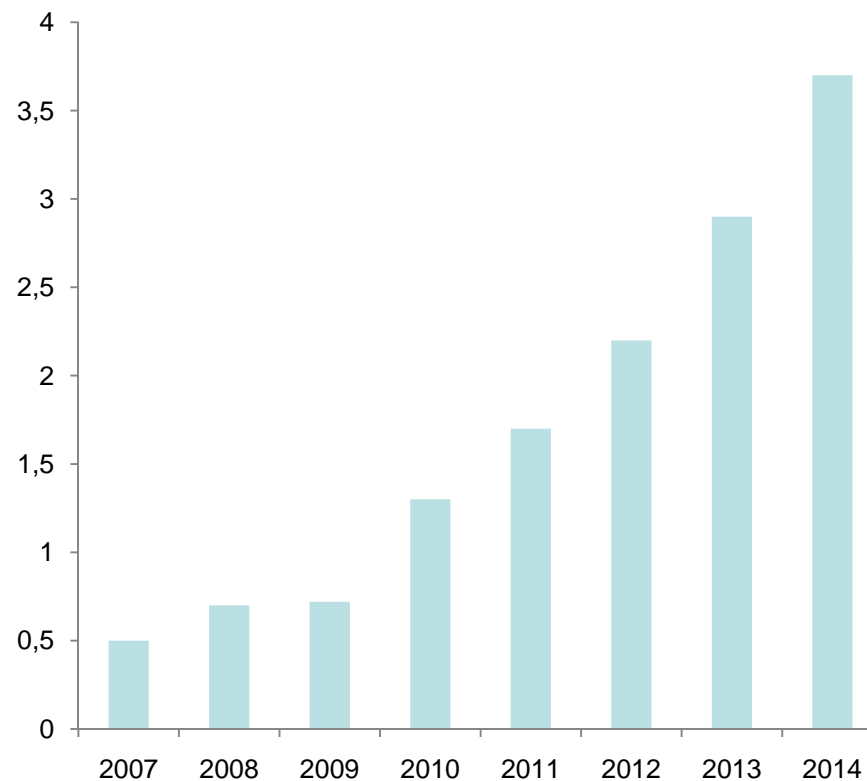
Sources of financing

- **Domestic Banking Sector**
- **Domestic Stock Market**
- **Domestic Capital Market Budget**
- **Budget**
- **Foreign Borrowing**
- **Stock Market**
- **Foreign Capital Markets**
- **IFIs**
- **Donors**

Foreign Investment

**Most major mines
will be funded
through foreign
investment**

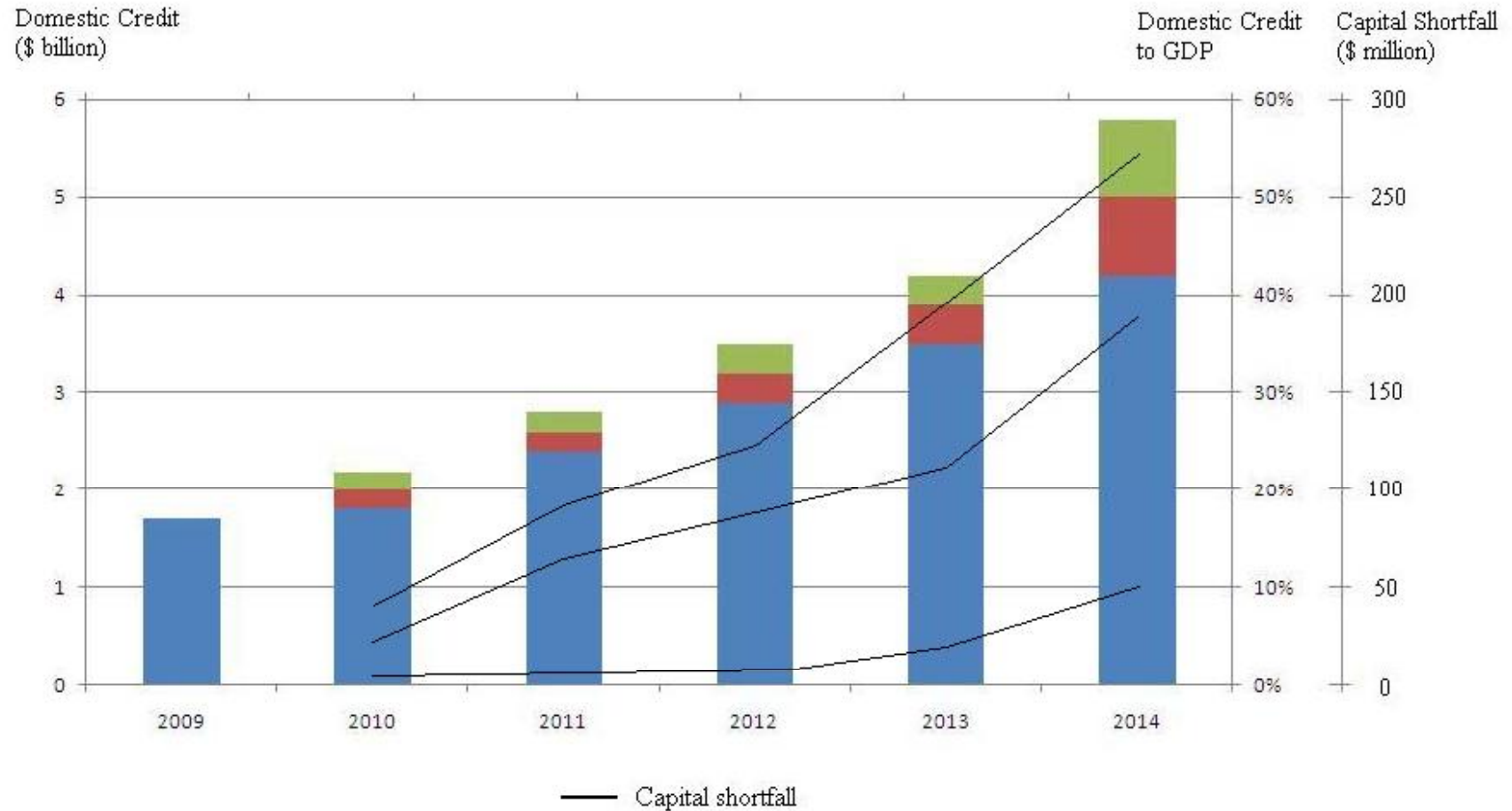
USD billion



Banking sector

- **Banking sector is small compared to other emerging countries:**
- **Mongolia bank loans to GDP only 34%**
- **Central and Eastern Europe over 50%**
- **USA, Korea, China over 100%**
- **To reach CEE level in 5 years will require \$200 million of outside equity capital as GDP doubles**
- **Banks could provide \$1.5 billion in investment financing, apart from working capital funding.**

Banks' capital needs



Stock Market

- **Mongolia stock market very small: approx. \$400 million market cap which is 24% of domestic bank credit and \$150 per capita**
- **Developing countries ratios around 50% or \$3000 to \$5,000 per capita**
- **Developed countries market cap equals bank credit, with \$40,000 or more per capita**
- **Potentially, \$2 billion or more could be raised under properly organized stock exchange as market cap reached 40% of domestic credit**

Public debt

- **Mongolia has virtually no public debt**
- **Mongolia needs to establish a domestic capital market**
- **This will enable a forward rate which will attract foreign investors**
- **Up to 20% of GDP should be possible based on other emerging countries**
- **This would mean up to \$2 billion could be raised**

Investment by businesses

- Spending by business on fixed assets will increase from current estimated 5% of GDP
- General level of developing countries is 25% with US at 14% and China at 40%
- Moving to 25% of GDP will generate over \$6 billion in investment, of which \$1.5 billion could be provided by domestic banks. The balance requires funding from profits or capital markets and foreign sources.

Budget

- **Current Budget expenditures approx \$1 billion, with small deficit**
- **Increased revenues from mining can enable increased budget to meet many social and infrastructural needs**
- **Establishment of Homeland Development Fund aims to use surplus mining revenues to meet such needs**
- **Estimate: \$1 billion or more**

Foreign Debt

- **Mongolia has less than \$2 billion in foreign debt, much on concessionary terms, or about 40% of GDP.**
- **There is capacity to raise sovereign commercial debt**
- **Within 5 years, additional \$3 billion could be raised and keep debt ratio below 50% of GDP**

Bilateral

- **China has already expressed interest on up to \$3 billion in bilateral financing aimed at rail, mining and mining infrastructure**
- **Russia has also targeted a similar amount aimed at rail, uranium coal and agriculture**
- **If structured as sovereign debt, can impede Mongolia's borrowing on debt markets**

Summary

- **The Domestic sources could provide about one third of the investment needs or \$10 billion**
- **FDI in mining should provide \$10 billion**
- **Other FDI \$1 to \$2 billion**
- **From Sovereign and Bilateral loans \$3 to \$5 billion**
- **Foreign Lenders, such as IFIs and International banks will need to consider up to \$5 billion**
- **Donors and NGOs \$1 to \$2 billion**

A reachable goal?

- **Consider: OT and TT alone will generate \$3 billion in exports a year.**
- **Additional mining projects will add \$1 to \$2 billion a year in exports**
- **High rate of GDP growth should continue**
- **Preconditions are political stability and strong legal and regulatory environment**
- **Governance**

What can you do?

- **Mongolia is on the RADAR SCOPE and warrants attention of European financial centers**
- **For example: City of London**
 - Accounting**
 - Law**
 - Banks**
 - Stock Exchange**
 - Investment Banks**
 - Private Equity**
 - Insurance and Pension**

Shall we make a deal?



If yes,
please contact us



Mongolia's leading bank

- **Mongolia's leading corporate bank**

TDB is the largest corporate lender in Mongolia with 25% corporate lending market shares. It serves approximately 360 major Mongolian corporates in all major business sectors.

- **Leader in international banking**

Having established over 80 correspondent relationships with international financial institutions and correspondent accounts with major clearing banks around the world TDB offers a wide range of international banking services designed to appeal to both domestic and international clients.

Currently, TDB maintains 25 nostro accounts in 14 currencies with 20 top rated foreign banks of 15 countries. Total amount of trade finance lines reached USD115 million.

Mongolia's leading bank

- **Leader in foreign exchange and money market**
TDB is a leading player in the domestic money market , accounting for approximately 41.4% of total market share. It also dominates Mongolia's foreign exchange and gold bullion markets with a 40% and 60% market share respectively.
- **First Mongolian issuer of debt on the international public markets**
In January 2007, TDB successfully completed the first ever public placement of debt by Mongolian bank in the international capital markets with a USD75 mln. Senior unsecured bond issue within a USD300 mln. EMTN program, arranged by ING Bank. This senior unsecured foreign currency note issue was rated Ba2 by Moody's Investor Services. Despite the world economic and financial turmoil, TDB recently has prepaid successfully over 45% of its debit.

Mongolia's leading bank

- **Mongolia's longest established bank**

TDB was established in October 1990 and over past decade has become a leading banking and financial services provider in Mongolia, offering over 60 types of international standard and universal banking products. As the longest serving commercial bank in Mongolia the bank acts as a primary lender to most of the country's leading corporations.

- **Investment banking**

As the first Mongolian company issued bonds in the international capital market, TDB enhanced its reputation on the international market. As a result the bank became able to offer its corporate clients project financing from the international market through active participation in syndication financing.

Financial Results

(mln.USD)	2006	2007	2008	2009/3Q
Total Asset	336.3	444.5	520.3	510.3
Total Loans	198.7	307.2	347.4	302.9
Total Deposits	256.1	362.6*	404.6*	372.3**
Total Equity	32.9	47.5	54.0	50.3
Net Profit	9.3	12.9	12.9	6.5
Capital Adequacy	19%	13.8%	14.7%	13.8%
ROAA	3.1%	3.5%	2.8%	1.5%
ROAE	27%	32%	24.9%	16%

MNT/USD = 1426.01
09/30/2009

* Including \$75 million bonds
** Including \$41 million bonds

Bank Ratings by Moody's

- **Senior Unsecured EMTN (foreign currency)** **Ba3**
- **LT/ST Bank Deposits (foreign currency)** **B2/NP**
- **LT/ST Bank Deposits (domestic currency)** **Ba3/NP**
- **LT/ST Issuer Rating** **Ba3/NP**
- **Subordinated Obligations** **B1**
- **Bank Financial Strength** **D-**

THANK YOU

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