

Case Study: TenGer Financial Group (Mongolia)

TenGer's Story

TenGer is a financial services holding company established in 2001 through a merger of two non-bank financial institutions founded by Mercy Corps (a U.S.-based poverty alleviation charity) and the United Nations Development Program. The company acquired a banking license in the same year and began to grow beyond its microfinance roots into deposit-taking and other areas of retail banking. By 2008, TenGer's banking subsidiary, XacBank, had grown to 76 branches and offices across Mongolia's 21 provinces. That year, an opportunity for Ronoc to become a shareholder in TenGer arose through an introduction to the company's CEO, a highly-regarded Mongolian microfinance specialist.

As Ronoc became acquainted with the company, it saw the coincidence of firm-specific and country-wide tailwinds that would drive TenGer's growth. The company's CEO articulated a coherent vision for the company's future; though TenGer would remain committed to community outreach and social responsibility,



ity, it had ambitions to grow with its customers and join the ranks of Mongolia's largest banks. Mongolia's prospects as one of the world's fastest-growing economies also attracted Ronoc's attention, as increasing foreign direct investment and demand related to the country's mining sector growth raised Mongolians' incomes. As a stable democracy with a currency projected to appreciate against the dollar, Mongolia also enjoyed strong political and macroeconomic fundamentals in Ronoc's view, and the country's geographical location between China and Russia offered additional potential to expand the TenGer business model.

The Role Played by Private Equity

In a market with limited but growing penetration of financial services, Tenger had not yet expanded from its focus on microfinance into key areas of Mongolia's banking sector. This untapped potential represented an opportunity for Ronoc to add value by improving business processes and guiding the company through its transformation into a diversified financial services company.

With Ronoc's guidance, TenGer accelerated its shift towards SME-focused lending and diversified its retail loan business into several complementary financial products. Early on in the partnership, Ronoc underscored product diversification as key to TenGer's continued growth, as the opportunity to cross-sell multiple products to existing customers would be essential given

Mongolia's small population. TenGer acted on Ronoc's advice; since 2008, the company has created an insurance subsidiary through a joint venture, Tenger Insurance, and purchased and reorganized a brokerage house, TenGer Capital.

Amid Mongolia's growing mining activity and projections of large government infrastructure projects, this diversification strategy has also provided a platform from which TenGer can serve the growing financing needs of Mongolian SMEs. Ronoc also contributed its experience in cross-border investments in the region to bring greater clarity to TenGer's international expansion strategy, which most recently took the form of a 2012 microfinance joint venture, TianRong Microcredit Company, in the underpenetrated loan market of Xinjiang, China. ▶

The Company



Essentials

Company: TenGer Financial Group LLC
(www.tengerfinancialgroup.com)

Country: Mongolia

Sector: Financial services

Business focus: Consumer and SME lending and complementary services, including leasing, insurance and brokerage

Size: US\$597 million in assets; US\$9.3 million in net profit (FY2011)

GP: Ronoc, an impact investor focused on investments in micro and small to medium-sized financial institutions in the greater Eurasian region serving lower- and middle-income earners (www.ronoc.ie)

Date of investment: Ronoc first invested in 2008 and has since acquired shares from another shareholder and added to its position in subsequent capital calls

Investment: Ronoc holds 9.5% of share capital

Impact Highlights

Ronoc's team drew on their experience managing financial institutions in Eastern Europe and Russia to develop TenGer's strategic vision, risk management capacity and to bring its international expansion strategy into sharper focus

With Ronoc's guidance, TenGer quadrupled its asset base to approximately US\$600 million and grew its banking division, XacBank, from a microfinance institution into a diversified retail and SME bank that ranks as one of Mongolia's four largest banks by assets and one of the country's fastest-growing major banks, with asset growth of 75% in 2011

To help TenGer capture demand for complementary financial services, Ronoc facilitated plans for new lending and brokerage subsidiaries

Ronoc reinforced TenGer's commitment to expand access to financial services to low-income individuals, contributing its experience as a member of several impact investing associations

The Company View

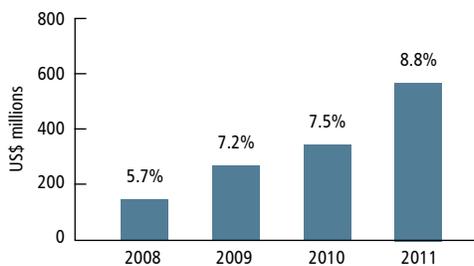
“The spirit of our partnership with Ronoc is trust. They are investors, but they are also equal partners with management, and that is the driving force behind our collaboration. Most investors tend to shy away from unfamiliar markets, and in doing so miss a huge opportunity simply because they don’t know the market. But Ronoc is smart enough to take the extra steps to better know local markets such as Mongolia.”

“TenGer didn’t only need capital; we also needed partners with industry knowledge and a deep network to help us gain technical knowledge and transform our banking subsidiary from a purely microfinance bank into a retail and SME bank. Through its board member, Ronoc has made a tangible contribution on these fronts, providing down-to-earth, practical operational recommendations.”

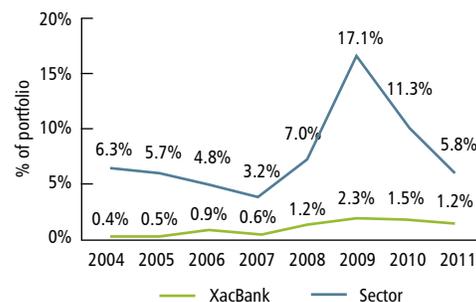
Bold Magvan,
CEO,
TenGer
Financial
Group



XacBank Total Assets (US\$ millions) and Market Share (%)



Non-Performing Loans (% of portfolio)



“TenGer has a fantastic culture because it was built from the bottom up. TenGer has gained its customers’ respect, and it’s hard to introduce those kinds of values into an organization. You have two choices: either grow with your customers, or stay small. We believe in the future of Mongolia and the intellectual power of Mongolians, and we want TenGer to grow with them and keep them in the franchise.”

Michael Madden, CEO, Ronoc

► TenGer also leveraged Ronoc team members’ experience running emerging market banks to maintain focus on risk management and profitability. Due in part to Ronoc CEO Michael Madden’s role as a TenGer and XacBank Board Member and Chair of their risk committees, TenGer is an industry leader in portfolio quality despite its rapid growth; it holds a diversified loan portfolio, with no single borrower representing

more than 2% of assets, and its 2011 NPL ratio of 1.2% was the lowest in Mongolia.

Since its partnership with Ronoc began, TenGer’s assets have quadrupled to almost US\$600 million. XacBank’s loan growth outpaced growth in the sector with a CAGR of 53%, with its market share rising from 6.0% in December 2008 to 9.6% in December 2011.

Beyond the Bottom Line

As a member of the Global Impact Investing Network (GIIN) and a Clinton Global Initiative (CGI) commitment maker, Ronoc was attracted to TenGer’s dedication to social responsibility and inclusive finance in Mongolia and through its involvement has reinforced the company’s social impact throughout the partnership.

Since Ronoc’s participation, TenGer has multiplied its partnerships with both international and local organizations to expand lending to Mongolia’s disadvantaged groups. Since 2008, TenGer has received more than US\$2.7 million in funds from the World Bank-backed Microfinance Development Fund to increase lending to Mongolian MSMEs. In 2009, the company also began a partnership with Kiva, an international micro-lending organization; since then, TenGer has lent more than US\$6.3 million of Kiva lenders’ money in Mongolia. As of the end of 2011, in cooperation with both Kiva and MDF, loans were disbursed to over 4,100 borrowers and 1,840 micro and small business customers.



Locally, TenGer has partnered with a local women’s federation to provide loans to poor women who would otherwise be ineligible, and worked with Oyu Tolgoi, a mining consortium in the Gobi Desert, to serve low-income SMEs in one of Mongolia’s most rural provinces. In 2009, TenGer also established a financial literacy program to teach secondary-school students techniques to manage their spending and build savings.

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Contact us at www.empea.org Email: empea@empea.net Phone: +1 202 333 8171

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