

Mongolia

Connecting to the Capital Markets

September 2006



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Objectives of domestic bond market developments

Strategic aspects of bond issuance



Old Financing Sources (ODA, Soft loan, Grants)	New Financing Source (Capital Markets)
<ul style="list-style-type: none">• Favourable funding costs	<ul style="list-style-type: none">• Flexible use of proceeds• Access to large pool of investors• Long-term source of funding• Integration of Mongolia and its borrowers into the international business community
<p><u>Issues:</u></p> <ul style="list-style-type: none">• Eventually cease or become restricted• For development projects only• Inflexible use of proceeds	<p><u>Issues:</u></p> <ul style="list-style-type: none">• Market-determined financing costs• Investor uncertainty of Mongolia credit

Summary credit assessment of Mongolia



Strengths	Issues
<ul style="list-style-type: none">• Improving growth prospects, supported by the strong mining sector• Progress in economic stabilisation• Open market-led economy• Politically stable environment• High levels of human capital• Strong multilateral support	<ul style="list-style-type: none">• Comparatively weak fiscal parameters (deficits, overall debt burden)• Heavy dependence upon commodity exports• Inadequate infrastructure• Limited monetary flexibility• Weak financial sector

Determining optimal transaction timing

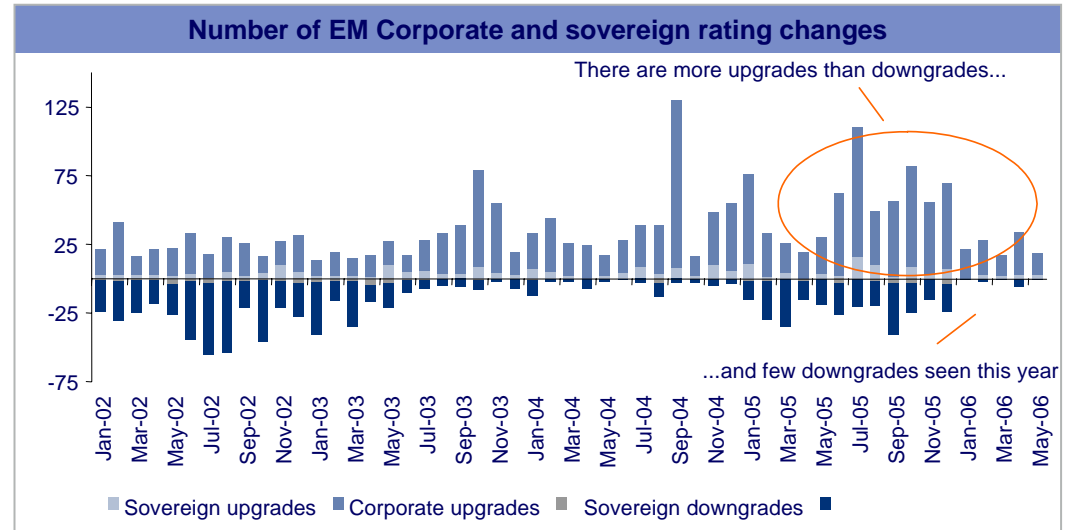


Transaction in 2 – 3 Years	Transaction now
<p data-bbox="510 419 923 519">Wait for credit improvement resulting from various reform and development initiatives</p> <ul data-bbox="510 576 923 948" style="list-style-type: none"><li data-bbox="510 576 923 676">• Implement a stronger political environment (e.g. public administration)<li data-bbox="510 691 923 819">• Develop infrastructure and identify a resolution in negotiating new mineral investments<li data-bbox="510 833 923 948">• Strengthen fiscal consolidation as well as financial sector reforms	<p data-bbox="961 419 1367 491">Complete a transaction within the next 3 – 6 months</p> <ul data-bbox="961 576 1372 1290" style="list-style-type: none"><li data-bbox="961 576 1372 748">• Pro-active approach allows Mongolia to choose a timing and terms of a transaction without being forced by funding requirements<li data-bbox="961 762 1372 933">• Reform and development initiatives are increasingly visible to investors, resulting in enhanced interest in Mongolia's economy<li data-bbox="961 948 1372 1062">• Mongolia's credit profile is not likely to change materially over the next 2 – 3 years<li data-bbox="961 1076 1372 1133">• Inaugural issue 'discount' is not reduced over time<li data-bbox="961 1148 1372 1290">• Established capital market track record, future financings will be easier to execute and may result and better terms

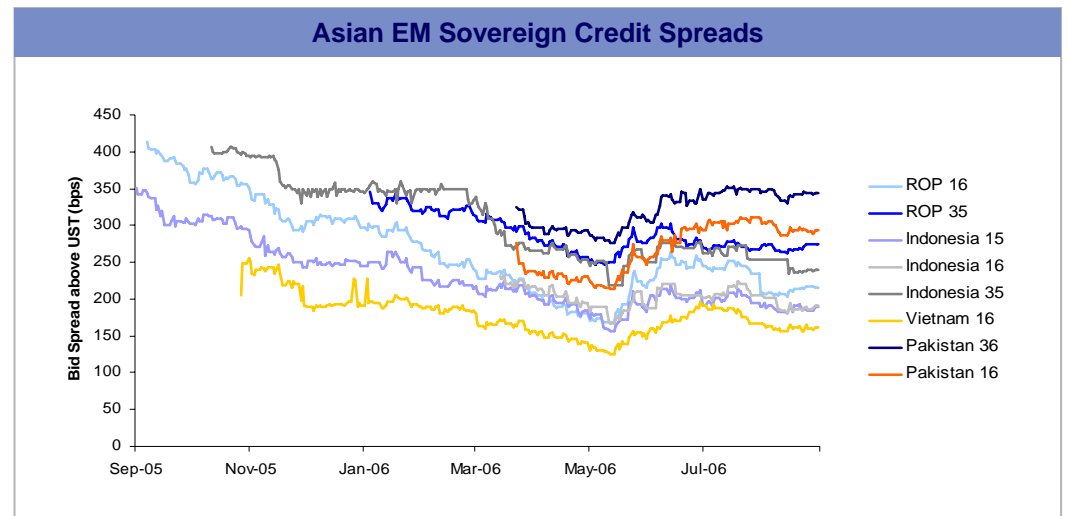
The bond market would welcome Mongolia



- Inflation expectations are well anchored
- The EM credit cycle is still positive



- Asia non-investment grade sovereigns returned 6.51% YTD until August 31
- The combination of low interest rates, a positive credit cycle, tight credit spreads and abundant liquidity suggests that this is a good time for EM credits to issue bonds



Case study

Vietnam US\$750m 6.875% bonds due 2016



Debt Products

Vietnam 11/05

Socialist Republic of Vietnam
US\$750m
6.785% Bonds due 2016



Sovereign

Key Terms

Issuer	Socialist Republic of Vietnam
Size	US\$750m
Issue Type	Global bonds (144a / Reg S)
Maturity	10 years
Coupon	6.875%
Price	98.223%
Spread	256.4 bps over 4.25% US Treasury Notes due 08/15
Re-offer Yield	7.125%
Rating	B1/BB-
Listing	Singapore
Pricing Date	Oct 27th, 2005
Closing Date	Nov 3rd, 2005

Issuer Background

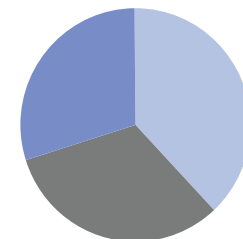
- The issue was the first international bond transacted by the Socialist Republic of Vietnam ("SRV"), then rated B1/BB-, representing a remarkable turnaround in the perception of the credit
- Vietnam's commercial debt traded at 15 cents to the dollar until the 1990s
- The transformation into a member of the international community led to the Paris Club Agreement, followed by a Brady restructuring of Vietnam's London Club debt
- The implementation of this restructuring in 1998 helped the SRV to obtain 50% forgiveness and led to the issuance of US\$542.55m of Brady bonds
- Vietnam actively managed this exposure via buybacks etc and the bonds traded up to 90% by early 2003, paving the way for the inaugural venture into the international bond markets

Transaction Details

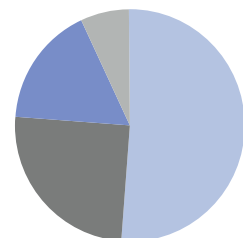
- Vietnam eventually issued in 2005 after having flirted with the idea for over a decade. To get the deal to market, delicate negotiations building on the support of the Prime Minister and Finance Minister, overcoming the objections of others, were necessary
- The country initially announced a smaller size of US\$500m and a reasonable price guidance of 7/25%, i.e. 25bps inside Indonesia's curve, which was rated B2/B+ at the time
- Vietnam's improving credit story, its rarity value and the qualification for the EMBI+ made the paper very attractive to global EM finds.
- Orders reached US\$4.5bn from 255 accounts, achieving a well balanced distribution across all geographies and investor brackets
- The strong oversubscription allowed for the transaction to be upsized to US\$750m and the price to tightened to 7.125%, or 256.4bps over UST, but 63bps inside Indonesia due 2016 and 97bps inside the Philippines due 2016
- After market trading has been strong and liquid with the bonds having gained 0.50% in value immediately after launch
- As of September 1, 2006, the issue (now rated Ba3/BB-) trades at 103-7/8% on the bid, representing a spread of 158bps over UST, or a yield of 6.31%. This is 35bps inside Indonesia and 72bps inside the Philippines (both now rated B1/BB-)
- The transaction bodes extremely well for Vietnam, as the sovereign is now fully connected to the international capital markets, and less reliant on ODA and grants, while agency and private sector borrowers can capitalise on the fact that credit lines are being set up by banks and institutional investors

Distribution

Geographic



Investor Type



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Strategic aspects of international bond issuance

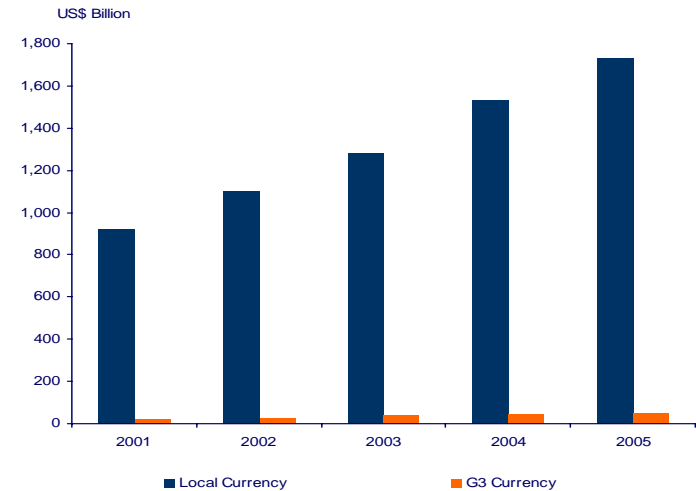
Objectives of domestic bond market development

Development of local bond markets in Asia

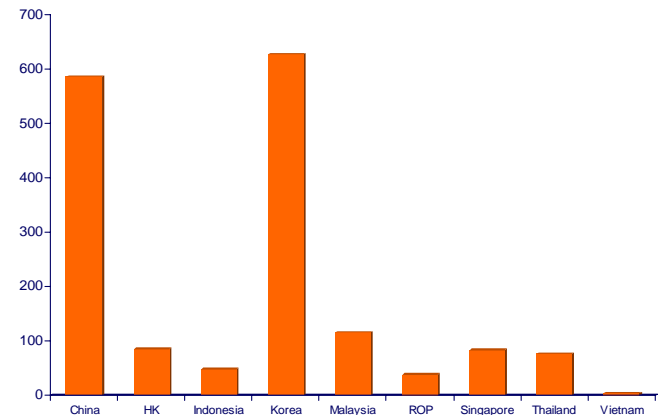


- Policy prescription for crisis prevention
- The combined size of Asia's local currency markets is 1.67bn as of 2005
- Strong commitment to disintermediation and, implicitly, maturity extension
- Much higher level of domestic versus international issuance
- Strong commitment to construct government yield curves
- Regional approaches to develop non-government bond markets are inconsistent

Asian bond market – by currencies



Asian bond market – by countries



Why develop a local bond market in Mongolia?



MACRO ISSUES

- Avoid further monetization of underground economy
- Introduction of an efficient funding tool for banks and corporates
- Introduction of a genuine credit culture

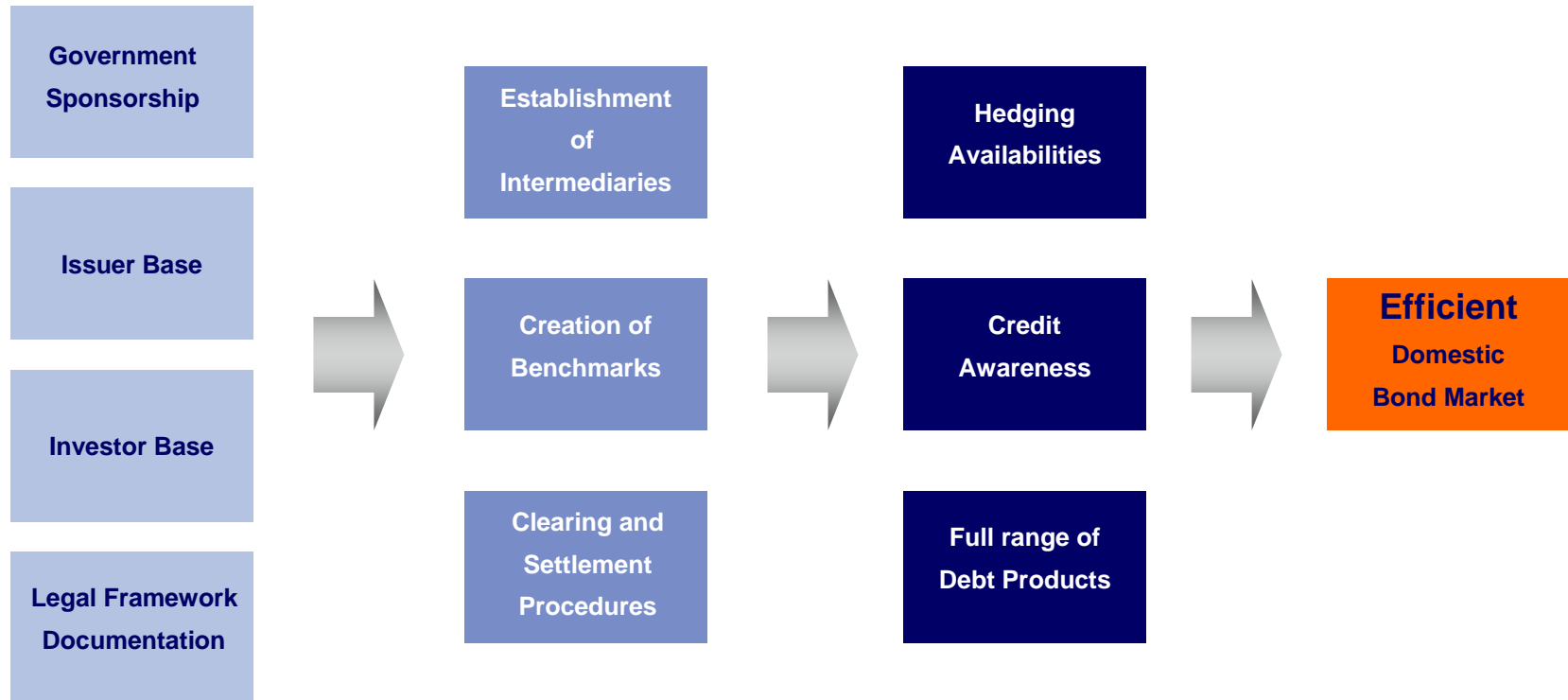
Why develop a local bond market in Mongolia?



MICRO ISSUES

- Mitigation of double mismatches
- Reduced borrowing costs, which can be below bank loans
- Efficient resource allocation, assuming liquid secondary markets
- Promotion of derivatives-market development via an accurate reflection of opportunity cost of funds at each maturity
- Improved availability of credit in the face of financial difficulties

How to create an efficient local bond market





THANK YOU