

Frontclear facilitates a landmark transaction with State Bank Mongolia, EBRD and ING Bank

July 2018. Frontclear arranged and structured a USD 30 million cross-border collateral swap with the European Bank for Reconstruction and Development (EBRD), enabling a further repo transaction between the Mongolian State Bank and ING Bank. It is the first time in Mongolia that a repo or collateral swap transaction has been done with local currency collateral cross border and a first such deal involving a commercial bank.

In this transaction, Frontclear borrowed USD 30 million in US Treasury bonds from the EBRD and then on-lent them to the State Bank LLC in Mongolia against Mongolian local currency government bonds in a collateral swap transaction. Frontclear guaranteed the transaction to EBRD. With the US Treasuries in hand, State Bank LLC borrowed funds in a repo transaction with ING Bank N.V. Singapore branch.

Credit risk, legal and operational risks plus wrong way risk concerns, has made it very difficult for Mongolian banks to source hard currency liquidity against local collateral in global capital markets. The landmark transaction made it possible for State Bank LLC to competitively access funding from foreign banks. It also helped clarify certain legal and operational issues related to bond trading in Mongolia, which were mitigated by effective Frontclear deal arranging and structuring.

Both collateral swap transactions were documented under an International Swap and Derivatives Association (ISDA) agreement, whereby Frontclear customized the swap confirmation to legal issues in the Mongolian market. The repo transaction was closed under a Global Master Repurchase Agreement (GMRA). The transaction documents introduced best practice operational and legal concepts, which will be further reviewed in a Frontclear organized Executives' Roundtable in Ulaanbaatar in September 2018.

"We are proud of the catalyst role we have played in originating the structure. The transaction provides a new mechanism for Mongolian banks to utilize local collateral in international capital markets and sets a benchmark for the development of Mongolia's money market going forward." – Andrei Shinkevich, SVP Frontclear

"We expect this transaction to generate positive ramifications for Mongolia as it enabled know-how transfer to the local market and should have a demonstration effect on other potential followers from global financial markets." – Aude Pacatte, Director, Head of Portfolio Management EMEA, EBRD

"State Bank is delighted for successfully executing this inaugural transaction that provides possibilities to practice the financial instrument in line with international best practice and facilitates development of interbank money market in broader perspective in Mongolia." – Chinbat Lkhagvasuren, Director General, Treasury Department, State Bank of Mongolia

"We are proud to have been given the opportunity to play an instrumental role in the further development of the capital market in Mongolia, together with State Bank of Mongolia, Frontclear, and EBRD." – Erik Versavel, ING Mongolia Country Head

About Frontclear

Frontclear is a development finance company focused on catalyzing stable and inclusive interbank markets in emerging and developing countries (EMDC). Frontclear facilitates access by local financial institutions to interbank markets through providing credit guarantees to cover a transacting institution's counterparty credit risk. This on the condition that local currency assets can be used for collateral management purposes. Frontclear's Basel III compliant guarantees specifically cover due payment of the Early Termination Amount under ISDA contracts and corresponding claims under GMRA. The guarantees are in turn counter-guaranteed by KfW, a AAA-development financial institution. The guarantees are complemented by a technical assistance programme (FTAP). FTAP supports targeted and planned interventions in bank and system development, which reduce the operational and country risks obstructing interbank trading. European Bank for Reconstruction and Development (EBRD), the Dutch development bank FMO, the Financial Sector Deepening Africa (FSDA), the French development bank Proparco, The Currency Exchange Fund (TCX), the UK's Department of International Development (DFID) and the German Ministry of Development Cooperation (BMZ). Frontclear's guarantees are counter-guaranteed by KfW, a AAA-rated German development Bank.

For further information, please visit www.frontclear.com

For press inquiries:

Ingrid Hagen, Vice President Strategic Projects at Frontclear

T +31 (0)20 5300974 | M +31 (0)682622462 | E ihagen@frontclear.com

About EBRD

The EBRD is a multilateral bank that promotes the development of the private sector and entrepreneurial initiative in 38 economies across three continents. The Bank is owned by 67 countries as well as the EU and the EIB. EBRD investments are aimed at making the economies in its regions competitive, inclusive, well-governed, green, resilient and integrated. Follow us on the web, Facebook, LinkedIn, Instagram, Twitter and YouTube.

About State Bank LLC

The State Bank is a state-owned commercial bank, established pursuant to decree of the Government of Mongolia. Since its establishment, the Bank has been contributing to the overall banking system through its successful operations that cater the financial needs of its customers, both retail and corporate, in a reliable and timely manner, leveraged by its skilled personnel and advanced technology. The State Bank is Mongolia's one of six systematically important banks and it maintains the strongest nationwide retail banking presence in Mongolia.

About ING

ING is a global financial institution with a strong European base, offering banking services through its operating company ING Bank. The purpose of ING Bank is empowering people to stay a step ahead in life and in business. ING Bank's more than 51,000 employees offer retail and wholesale banking services to customers in over 40 countries. ING Group shares are listed on the exchanges of Amsterdam (INGA NA, INGA.AS), Brussels and on the New York Stock Exchange (ADRs: ING US, ING.N).

Sustainability forms an integral part of ING's strategy, evidenced by ING's ranking as a leader in the banks industry group by Sustainalytics. ING Group shares are included in the FTSE4Good index and in the Dow Jones Sustainability Index (Europe and World), where ING is also among the leaders in the banks industry group.

ING Wholesale Banking has an international network in 40 countries with key positions in Structured Finance and Financial Markets. In Asia Pacific ING is active and present in 14 major markets, namely Australia, China, Hong Kong SAR, India, Indonesia, Japan, Malaysia, Mongolia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. ING's presence in Asia Pacific also includes a 13% stake in Bank of Beijing, China; a 3.74% stake in Kotak Mahindra Bank, India; a 30% stake in TMB Bank, Thailand as well as wholly owned ING Australia that offers retail and wholesale banking services.