

# FMO and Khan Bank

Transaction

## Managing FX risk to grow MSME and green lending in Mongolia



FMO — the Dutch entrepreneurial development bank — has been active in Mongolia since 2006 and has partnered with

Khan Bank since 2009. Over that period, the relationship has grown from smaller bilateral loans into larger, structured syndications that push the frontier on green, gender and MSME finance. In this latest transaction, TCX plays a central role: by taking on the long-term tugrik risk, it allows FMO and co-lenders to support Khan Bank’s growth plans without shifting currency risk to the bank or its clients.

Khan Bank is Mongolia’s leading universal bank, with national coverage, a strong MSME and retail franchise and explicit targets for expanding its green and gender portfolios. It issued the country’s first green bond by a financial institution and has clear strategies to grow its MSME book, including in rural areas; (b) increase lending to women- and youth-owned businesses; and (c) expand its green portfolio in line with its climate ambitions.

To support this agenda, in 2025, FMO arranged a five-year, multi-currency syndicated term facility of around USD 250<sup>1</sup> million equivalent. Co-lenders include other development finance institutions and private impact investors via an A/B structure.



**KHAN BANK**

The use of proceeds is deliberately focused to contribute to three main outcomes:

### MSME finance in local currency

- Longer-tenor MNT funding for small businesses, including in rural areas
- Reduced FX mismatch between Khan Bank’s liabilities and its MSME loan book

### Green lending

- Finance for energy-efficiency and other green investments
- Support for Khan Bank’s green portfolio growth targets

### Gender and inclusion

- A significant share directed to women- and youth-owned businesses

These are segments at the heart of Mongolia’s real economy but still constrained in their access to longer-term finance. Most earn and spend in Mongolian tugrik (MNT); taking on hard-currency loans would expose small-business owners in Mongolia to FX risk.

In earlier transactions, Khan Bank could hedge USD funding onshore using central bank facilities at reasonable pricing and tenors. Under those conditions, a fully USD facility combined with domestic hedging was a workable solution.

<sup>1</sup>. <https://bit.ly/4aeMulg>



## "The transaction could move forward at full scale without increasing FX exposure for the bank or its clients"

By the time this new facility was being structured, the onshore hedging environment had shifted. Tenors shortened, rollover conditions became less predictable and securing long-dated hedges for a transaction of this size became increasingly difficult. In practical terms, FMO and Khan Bank were left with two unsatisfactory options: to proceed with a fully dollar-denominated facility and accept higher FX risk on Khan Bank's balance sheet, or to reduce the overall size of the facility to stay within the bank's diminished hedging capacity.

This is where TCX played its unique role by providing 5-year MNT hedge. And this enabled FMO to include a USD 40 million equivalent local currency tranche in the syndication.

This enhanced pricing for Khan Bank and allowed the transaction to scale without introducing additional currency risk to the Mongolian borrowers.

As FMO investment officer Alessio Crestani put it in conversation with TCX:

*"Without the option to offer the LCY tranche via TCX, either the amount would have stayed the same with higher FX risk for the client, or the facility could have been reduced for investors to stay within comfortable risk and pricing levels."*



This design achieves several objectives at once:

- Khan Bank obtains long-term local currency funding, earmarked for MSME and green lending, that directly matches the currency of its end-borrowers.
- FMO and co-lenders can originate in USD, in line with market convention for cross-border lending, while TCX absorbs the underlying currency risk.
- the facility becomes less sensitive to exchange rate movements, supporting the stability of Khan Bank's portfolio over the full tenor.

For FMO, this transaction reflects a broader shift towards systematically integrating currency risk into credit decisions. FX risk is not treated as an external factor that borrowers must manage on their own, but as an integral part of FMO's risk assessment:

- the end-borrowers targeted by the facility largely earn in tugrik: MSMEs, households, local green projects
- onshore hedging availability reduced for the required tenor and size
- experiences in other markets have shown how quickly unhedged FX exposures can undermine otherwise sound credit profiles when currencies depreciate

Nada Coici, Investment Officer at FMO in the syndications team, summarised:

*"Foreign exchange risk is one of the key risks we see, so we don't simply provide a dollar amount because it's the convention [...] where possible, we like to provide local currency facilities to those earning domestically."*





TCX's role is to provide a reliable backstop when commercial or public solutions are not available or accessible. In Mongolia, that backstop allowed Khan Bank and its lenders to commit significant capital without compromising on financial prudence.

For TCX, the Khan Bank case demonstrates how FX Solutions can be embedded in multi-currency syndications in a pragmatic way, even when markets conditions are in flux.

### It shows that:

- 1 Local currency is compatible with large, multi-investor structures.
- 2 Hedging can be designed around the needs and risk appetite of both the financial intermediary and its end-borrowers.
- 3 Treating FX as a core credit consideration leads to more robust, more impactful transactions.

## Transaction snapshot



### BORROWER

Khan Bank JSC, Mongolia

### ARRANGER AND LENDER

FMO (Dutch entrepreneurial development bank)

### OTHER LENDERS

DFIs and private impact investors via A/B structure

### FACILITY SIZE

~USD 250 million equivalent

### TENOR

Up to 5 years

### STRUCTURE

Multi-currency syndicated term loan with a TCX-hedged local currency tranche

### LOCAL CURRENCY COMPONENT

USD 40 million equivalent in MNT, funded by FMO and hedged by TCX

### USE OF PROCEEDS

30% green finance; 70% MSMEs (with a focus on women, youth, agri-SMEs and sustainable value chains)

### DISCLAIMER

The Currency Exchange Fund N.V. ("TCX" or "the Fund") is an Alternative Investment Fund The Currency Exchange Fund N.V. ("TCX" or "the Fund") is an Alternative Investment Fund within the meaning of article 4:1 of the European Alternative Investment Fund Managers Directive. TCX's fund manager is TCX Investment Management Company B.V. ("TIM"), a company based in Amsterdam, The Netherlands, that is licensed as an Alternative Investment Fund Manager by the Financial Markets Authority of The Netherlands. Information distributed by TCX or TIM is not to be considered as an independent advice, recommendation or offer to invest in TCX. For more information, please visit [Disclaimer - TCX](#).