

# Annual Report 2009



 **TDB**  
TRADE & DEVELOPMENT BANK

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# TDB HAS SUCCESSFULLY REPAID THE FIRST EVER INTERNATIONAL PUBLIC BOND ISSUED FROM MONGOLIA



Sole Arranger and Dealer:



THANK YOU FOR YOUR CONFIDENCE AND SUPPORT OF THE MONGOLIAN ECONOMY





## **RANDOLPH S. KOPPA**

**President of TDB and Chairman  
of the Board of the Mongolian  
Mortgage Corporation**

One of the noteworthy events of 2009 was that the bank paid its USD 75 million bond issue maturing January 2010 ahead of schedule. The bank's issuance of bonds into the international market was inspiration to Mongolia that the country's businesses were able to acquire longer term resources from the international financial market in order to provide to our customers financing with longer term and lower interest rates. Overall the event was a very new page into the development history of Mongolia's financial market.

## Dear Shareholders,

I am pleased to present you the bank's 2009 main achievements and financial results achieved during an economically challenging time in Mongolia.

Mongolia's total business and trade activity declined in 2009 and interest rates were higher than in the previous two years as a result of the tighter monetary policy of 2008 to fight inflation and the increase of the Central Bank policy rate in early 2009 to stabilize the tugrug/dollar exchange rate. Moreover increase of non-performing loans of commercial banks and difficulties faced by some banks in their activities have warned us to be careful in lending activities including criteria to borrowers as well as loan monitoring.

Despite those challenges and the stern test, TDB was able to be successful in 2009. For the full year, we reported net profit of MNT 15.0 billion and our asset reached MNT 810.4 billion. Those achievements were result of the bank's capability to maintain its profitability, capital adequacy and liquidity ratios at a prudent level, a good loan policy supported by a coherent liquidity policy and a rational risk management. Non performing loans unfortunately did increase, but determined actions during the year enabled a manageable year end ratio of 5.4%, compared with the 2% level the previous year end.

One of the noteworthy events of 2009 was that the bank paid its USD 75 million bond issue maturing January 2010 ahead of schedule. The bank's issuance of bonds into the international market was inspiration to Mongolia that the country's businesses were able to acquire longer term resources from the international financial market in order to provide to our customers financing with longer term and lower interest rates. Overall the event was a very new page into the development history of Mongolia's financial market.

TDB has been cooperating with approximately 360 big businesses in Mongolia. Moreover we have been financing significant number of small and medium sized enterprises. TDB is still providing more than 25 percent of total corporate loan portfolio as we realize deeply our responsibilities and duties of the biggest corporate bank of Mongolia. As the economic downturn of the last year and the tighter monetary policy resulted by this downturn impacted severely the construction sector of Mongolia, we have supported our customers through offering favorable term mortgages to individuals who wanted to purchase their built apartments. The cooperation is going on successfully and proves our belief in the right way to do business as we have worked to help our customers to ride out the economic storm.

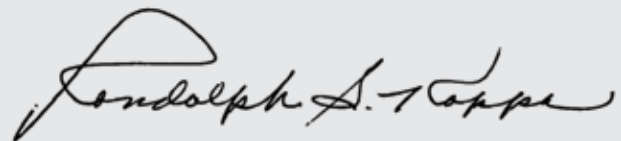
The bank was a successful organizer, a general sponsor and a lead donor of events to increase the inflow of foreign direct investment into Mongolia's economy, such as Euromoney-2009 conference in Hong-Kong and Mongolia-Europe Investors Forum 2009 held in London, UK in cooperation with Foreign Investment and Foreign Trade Agency of Mongolia.

The international relationship of the bank expanded in 2009 establishing new correspondent relations with banks including Sberbank, Russia, Hana Bank, Korea and Halyk Bank of Kazakhstan. The bank also served successfully international trading activities of its customers using its USD 95 million's trade finance lines opened with 20 international banks. Total trade financing of the bank reached USD 60 million last year – a good overall result given the economic environment.

The outlook for Mongolia brightened towards the end of 2009 upon the long awaited signing of the Oyu Tolgoi mine agreement. The increased investment and local spending from this project and a number of other

mining projects which have received additional stimulus from this historic event, auger well for the country's economy in 2010 and beyond. TDB is positioning itself to play an active and major role in support of this economic development through services to customers directly and indirectly affected by the increased pace of investment in Mongolia's future.

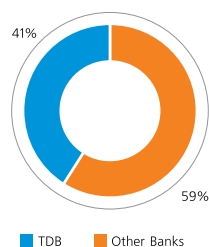
I would like to thank and express my sincere gratitude to all our esteemed customers, deposit holders and international and domestic partners for their continuous support, cooperation and confidence in us. Year 2010 marks the 20th anniversary of TDB, becoming thus the first commercial bank to reach this milestone in the history of the Mongolian financial sector. We are proud of this achievement which spurs us to continue to take our responsibilities seriously, honorably, and loyally. We look forward to continuing to serve and wish that your livelihood and your businesses will prosper well in the future.

A handwritten signature in black ink, reading "Randolph S. Toppe". The signature is written in a cursive style with a large, sweeping initial "R".

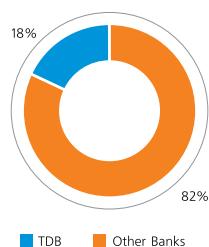
# FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS OF THE YEARS 2008 - 2009		
Financial Indicators	2008	2009
		In billion MNT
<b>Summary of Income Statement</b>		
Interest income	71.2	77.3
Net interest income	37.6	31.6
Operating income	37.6	43.7
Net profit	16.3	15.0
<b>Profitability ratios</b>		
ROE	23,8%	22,3%
ROA	2,5%	1,8%
<b>Summary of Balance Sheet</b>		
<b>Assets</b>		
Cash and cash equivalents	140.8	267.0
Loans and advances	440.3	406.2
Other	78.2	137.2
Total assets	659.3	810.4
<b>Liabilities</b>		
Deposits from customers	374.5	579.5
Deposits due to banks and FIs	33.5	31.5
Other liabilities	172.7	132.2
Subordinated borrowings	10.1	-
Total Liabilities	590.8	743.2
Shareholders equity	68.5	67.1
Total liabilities and Shareholders equity	659.3	810.4
<b>Prudential ratios</b>		
Capital adequacy ratio (>10%)	14.7%	12.7%
Liquidity ratio (>18%)	37.0%	47.0%
Foreign currency exposure (<40%)	7.8%	34.8%

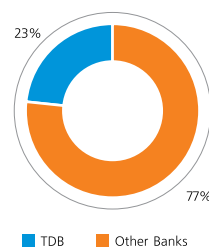
Market share by total profit



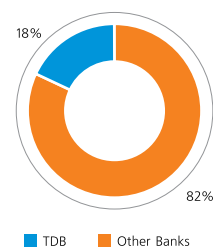
Market share by total assets



Market share by deposits



Market share by loans







## BALBAR MEDREE

CEO of TDB and President of  
Mongolian Bankers Association

Although a crisis wind has been blowing in all sectors of businesses, TDB's profitability and liquidity were at high level, as the bank's management was dynamic and loan portfolio was well diversified relying on its superior experience of the first commercial bank in Mongolia. We have been a trustworthy partner of our customers even during this crisis time, and the bank's total asset increased by 22.9 percent from the previous year reaching MNT 810.4 billion and the profit after tax was MNT 15.0 billion.



Dear customers, business partners,  
shareholders and coworkers,

You are very familiar that 2009 was a challenging year for the banking sector of Mongolia. Stagnation happened in all sectors of the economy since non-performing loans of commercial banks increased, prices of consumers' goods were inflated and Mongolia's exports price decreased in the world market. However positive signs occurred during the last quarter of the reporting year and the speed of domestic money supply increased from this time.

Although a crisis wind has been blowing in all sectors of businesses, TDB's profitability and liquidity were at high level, as the bank's management was dynamic and loan portfolio was well diversified relying on its superior experience of the first commercial bank in Mongolia.

We have been a trustworthy partner of our customers even during this crisis time, and were able to report a good financial performance as it had been during the years before. The bank's total asset increased by 22.9 percent from the previous year reaching MNT 810.4 billion and the profit after tax was MNT 15.0 billion. Those are outstanding indicators among the peer group banks.

In addition to the good financial performance, our business scope has been expanding. New sub-branches "Bayangol", "Sunday", "Grand" have been opened in Bayangol and Bayanzurkh districts. To maintain the bank's leading position in terms of information technology, we have renewed the core accounting system and increased number of ATMs up to 60. A new advanced system "Grats" for currency exchange activities and a complex system "Graft" for trade finance activities were implemented first among Mongolian commercial banks.

New services for retail customers such as a "SMS card" service which informs every card transaction of a customer via mobile phone and e-mail immediately, and possibilities to transfer money from a card to a card and from a card to a current account have been launched.

As an official representative of the worldwide famous Moneygram network, TDB provided an opportunity to receive transfers in EUR in Mongolia along with its agent banks. The opportunity allows customers not to have losses from exchange rates resulted by conversions into EUR.

TDB is a socially responsible bank which has been well aware about its social duties. Although the reporting period was financially challenging, the bank supported generously all layers of society including children which needed financial help.

With this report, I am inviting you to get introduced with results of considerable effort of TDB's Executive team and employees in 2009.

Finally, I would like to express my gratitude to all customers of the bank including businesses and individuals, and international and domestic partners for their cooperation and loyalty during the years passed. I am confident that TDB, which has been leading the market 19 years since its establishment, will stay your reliable financial partner in years to come. Moreover, I believe that 2010 will be a prosperous year for the social and economy development of Mongolia.



## Vision

TDB will be the leading financial institution in Mongolia, a universal bank with a strong international presence, a dedicated, trusted and responsible financial partner helping all its clients and stakeholders in their pursuit of sustainable financial well-being.

## Mission

As the leading universal bank in Mongolia TDB constantly aims to achieve highest customer satisfaction by developing and providing demand driven, valuable banking solutions for corporate, SME and retail customers. Our success will be built upon our commitment to excellent service, staff professionalism and best corporate governance.

### Moody's Investors Service (December 2009)

>	long- and short-term foreign currency deposit ratings	B2/NP
>	long- and short-term local currency deposit ratings	Ba3/NP
>	long- and short-term foreign currency issuer ratings	Ba3/NP
>	long- and short-term local currency issuer ratings	Ba3/NP
>	senior unsecured foreign currency issue	Ba3
>	subordinated foreign currency issue	Ba3
>	outlook	stable

# CORPORATE GOVERNANCE

Excellence in corporate governance is a fundamental aspect of corporate sustainability and TDB supports a comprehensive governance framework.

Our governance structure determines the fundamental relations among the members of Board of Directors, management and shareholders. It defines the framework in which ethical values are established and context in which corporate strategies and objectives are set.

## Board of Directors

Our Board operates and requires at all levels, impeccable values, honesty and openness. Through its processes it achieves transparent, open governance and communications under all circumstances addressed.

## Management team

Our governance policies and practices support the ability of directors to supervise management and enhance long term shareholder value.

## Employees

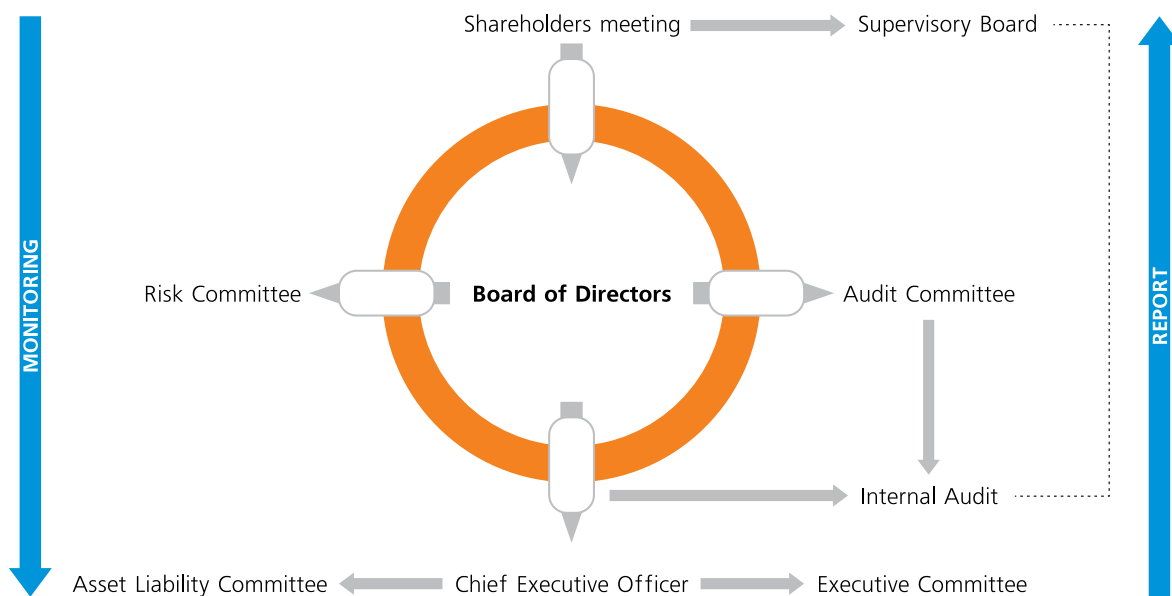
The Bank is committed to providing faithful, safe, challenging and rewarding work, recognizing the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.

## Us

The bank strongly committed to maintaining an ethical workspace, complying with legal and ethical responsibilities.

As we work to serve our customers, clients, and communities, and generate returns for our shareholders, we understand that success is only meaningful when it is achieved with the right way.

## CORPORATE GOVERNANCE STRUCTURE



## BOARD OF DIRECTORS

### REPRESENTATIVE GOVERNING BOARD

#### Chairman

Mr. Doljin ERDENEBILEG

#### Members:

Mr. Dumaajav MUNKHBAATAR  
 Mr. Chuluunbaatar ENKHBOLD  
 Mr. Tumurtogoo BOLDKHUU  
 Ms. Tamir TSOLMON

#### Company's secretary:

Ms. Dashzeveg DAVAAJAV

### EXECUTIVE COMMITTEE:

Mr. Randolph KOPPA  
 President  
 Mr. Balbar MEDREE  
 CEO  
 Mr. Onon ORKHON  
 First Deputy CEO  
 Ms. Damdin GANTUGS  
 Deputy CEO  
 Mr. Dambijav KHURELBAATAR  
 Deputy CEO  
 Mr. Sanjaasuren ORGODOL  
 Deputy CEO





**01** Mr. Onon ORKHON  
**02** Ms. Damdin GANTUGS

First Deputy CEO  
Deputy CEO

**03** Mr. Dambijav KHURELBAATAR  
**04** Mr. Sanjaasuren ORGODOL

Deputy CEO  
Deputy CEO

## MANAGEMENT TEAM

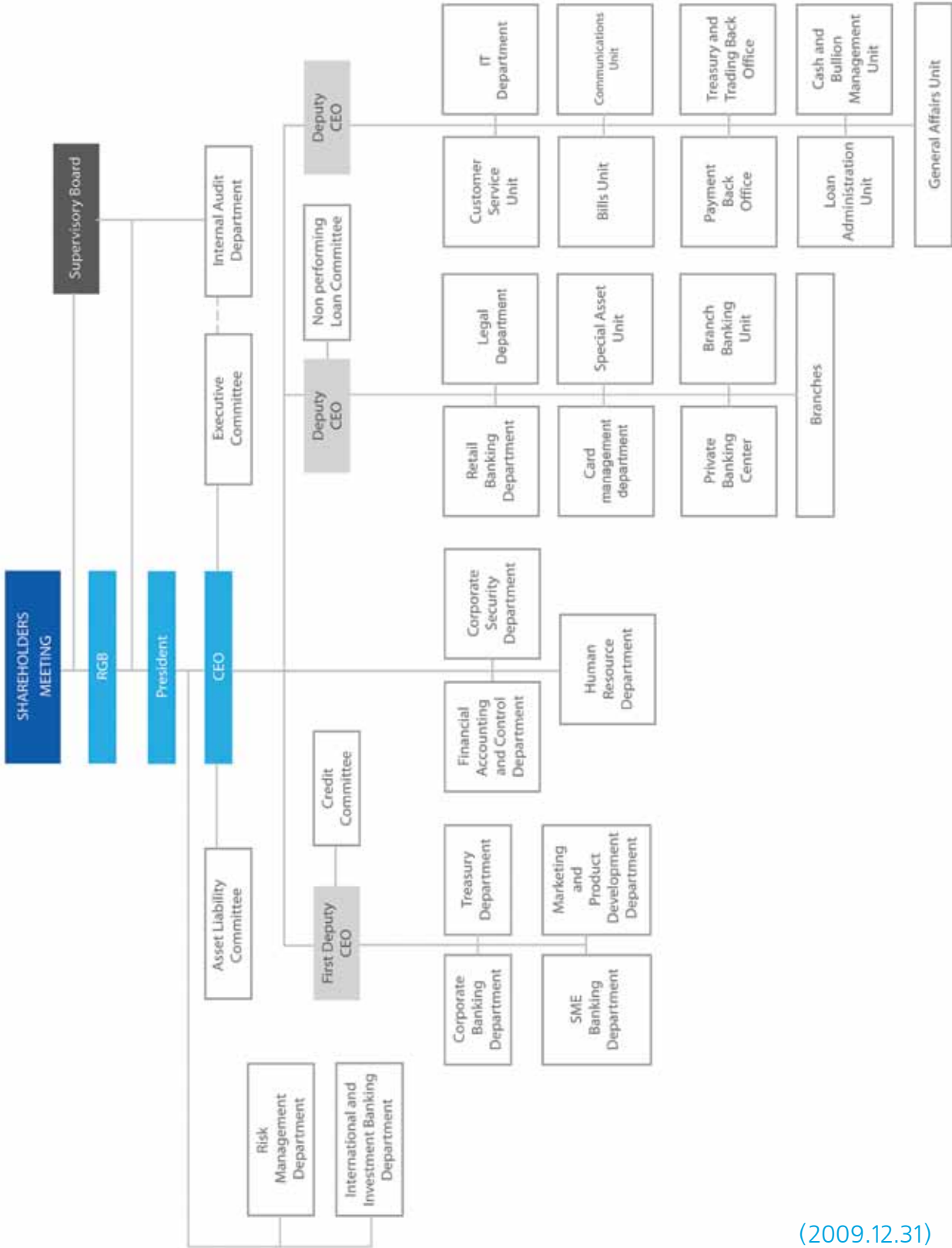


- |           |                                   |   |
|-----------|-----------------------------------|---|
| <b>05</b> | <b>Mr. Luvsan NYAMSUREN</b>       | Director, Human Resource Department               |
| <b>06</b> | <b>Ms. Dagmid YANJMAA</b>         | Director, Financial Accounting Control Department |
| <b>07</b> | <b>Ms. Navaansharav NYAMSUREN</b> | Director, Corporate Banking Department            |
| <b>08</b> | <b>Mr. Gombosuren USUKHBAYAR</b>  | Director, SME Banking                             |
| <b>09</b> | <b>Ms. Bayarbaatar BAYARMAA</b>   | Director, Retail Banking Department               |
| <b>10</b> | <b>Mr. Ichinnorov ORKHONKHUU</b>  | Director, Information Technology Department       |
| <b>11</b> | <b>Ms. Demchigjav OTGONBILEG</b>  | Director, Risk Management Department              |



- 12 Ms. Khasaarai GANTSETSEG** Director, Card Management Department  
**13 Mr. Anya MUNKHBAYASGALAN** Director, Marketing and Product Development Department  
**14 Ms. Palamdorj GANTUUL** Director, Internal Audit Department  
**15 Ms. Vanchigsuren ENKHTSETSEG** Director, Branch Banking Unit
- 16 Mr. Shirendev ERDENEBAATAR** Director, Corporate Security Department  
**17 Mr. Mishig BATSUURI** Director, Legal Department  
**18 Ms. Baltukh ERKHEMBAYAR** Deputy Director, International & Investment Banking Department  
**19 Mr. Lkhagvajav GANTUMUR** Deputy Director, Treasury Department

# ORGANIZATIONAL STRUCTURE



(2009.12.31)

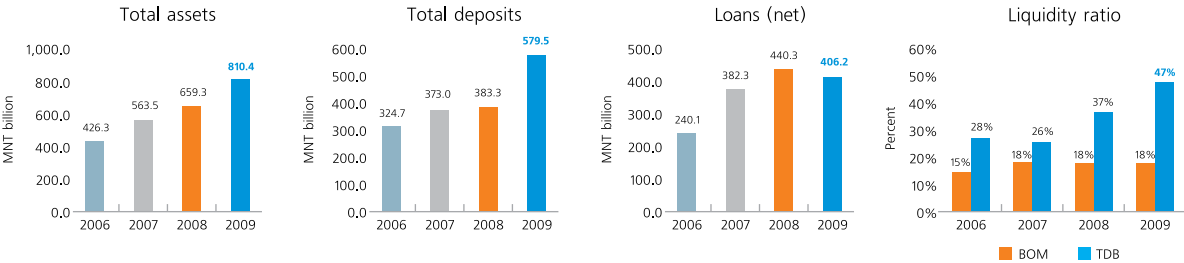


# THE BANK PROFILE

As a leading bank in Mongolian banking and financial market TDB offers to its customers who are corporate businesses, SMEs and individual customers a universal banking service through its over 70 types of international standard banking products including long and medium term financing, various trade finance instruments, customized private banking service, cash management, treasury and currency trading.

Since its establishment in 1990, TDB has been a main financier of big international and domestic businesses and corporations, and foreign investors who operate in leading economic sectors of Mongolia, and has been serving their financial needs at complete and high quality levels.

TDB cooperates with more than 100 international financial organizations in order to participate actively in trade finance and syndicated lending by those organizations and to increase credit lines with them. This cooperation has been based on the bank's well established position in the market as well as a long term good relationship with customers.



As of today, the bank operates with main departments and business units such as corporate banking, SME banking, retail banking, international and investment banking, treasury and private banking center, 28 branches, and 60 ATMs.



## 1990

TDB was established in October 1990 as a first commercial bank of Mongolia, since the bank has continuously striven to meet financial needs of country's leading corporations.

## 1992

TDB first transferred its accounting to the International Accounting Standard and implemented first automated CORE BANKING system.



## 1992

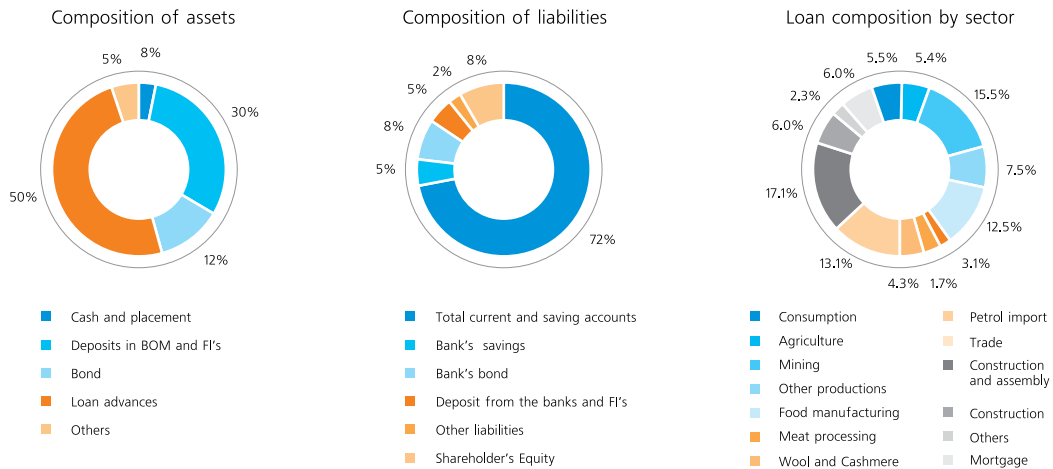
TDB first introduced the modern banking technology to Mongolia such as electronic data exchange (Reuters dealing).



## 1993

First time TDB delivered card services of AMEX, VISA, MASTERCARD, JCB and traveler's cheques to its clients.

TDB became the first ever Mongolian bank to be rated by the international rating agency Moody's in 2006. Moody's rated the bank's operation to be stable, and on the basis of this rating TDB issued successfully a USD 75 million's senior unsecured bond into the international financial market within a USD 300 medium term note program. With this issuance the bank was noted in the history of Mongolian capital market as it became the first ever Mongolian corporation to tap the international public debt market and to make known Mongolia's



name in it. The senior unsecured foreign currency note issue was rated Ba2 by Moody's Investor Services. TDB was able to pay the bond prior to and at its maturity in January 2010 proving itself to be a reliable bank to its investors as well as to the international financial market.

As of the end of 2009, TDB operated with total assets amounting to MNT 810.4 billion which represents 18.3 percent of the total banking sector asset. Total capital of the bank reached MNT 67.1 billion representing 29.1 percent of total banking sector capital. After tax earnings have been growing constantly reaching MNT 11.8 billion in 2006, MNT 16.4 billion in 2007, MNT 16.3 billion in 2008 and MNT 15.0 billion in 2009.

The bank's accomplishments were valued highly and it held the distinction of "The Best Bank in Mongolia" by "The Banker" journal two times. Moreover, TDB was awarded to be "The Leading Bank in Mongolia", "The Socially Responsible Business Entity", "and The Best Tax Payer" by the Government of Mongolia and other related authorities. It received number of partnership awards by VISA International as well.



**2001**

TDB first Launched international money transfer service "Moneygram" in mongolia.



**2001**

TDB put into operation "ATM" service first time in Mongolia.



**1996**

TDB first became a member of SWIFT networks to conduct payment settlements according to international standards.



**2001**

TDB became a principle member of "VISA International" and first launched 4 types of payment cards into the market.

# HIGHLIGHTS OF THE YEAR 2009

- The bank made a complete payment of its USD 75 million's bond issued into the international financial market in 2007 (first time ever in Mongolia) successfully.
- "Gold Financing Conference" was organized to support gold mining companies in cooperation with Bank of Mongolia. Outcomes of the conference were significant.
- New correspondent relations were established with Sberbank, Russia, Hana Bank, Korea and Halyk Bank, Kazakhstan.
- New sub-branches "Bayangol", "Grand" and "Sunday" were opened.
- Receiving of transfers in EUR through Moneygram network was launched for the first time in Mongolia.
- A cheap and prompt money transfer service "Pay Easy" was implemented for Mongolians who live and work in Korea in cooperation with Hana Bank, Korea and Pay One Company. The service was appreciated widely by the customers.
- Entities which cooperate in "E-billing" service have widened connecting Ulusnet, TunamalCom, STX and Citinet companies newly.
- "SMS banking" service has become more simplified fixing the new and the same line 133133 with all mobile service providers.
- A new "Short-term mortgage" product was launched in cooperation with client construction companies.
- "Grats" which is a new and advanced system to facilitate a quicker and simpler currency exchange service was implemented.
- A complex trade finance system was implemented in August 2009.
- "SMS card" which allowed a prompt receiving of transaction information in cards became available for the customers.
- "Peer to peer (P2P)" service which allows transactions from a card to a card, and "ATM Payment" service which allows payments through an ATM were introduced.
- The bank's ATM network was expanded by 10 more ATMs. In addition, all ATMs have become connected with a broadband cable enhancing their secure and safe operations.
- 270 new POS terminals were installed in cooperating merchant organizations to support the customers' non-cash transactions.

The **Banker**

**2001**

First time ever in Mongolia TDB awarded as "The best Bank of Mongolia" by "THE Banker".



**2004**

TDB was the first bank in the country to receive the investment from the Asian Development Bank and International Finance Corporation totaling USD 11 million.

2000

2001

2002

2003

2004

**2004**

The bank first ever, among Mongolian commercial banks, to commence gold export into foreign markets.



**Moody's Investors Service**

**2006**

TDB became the first commercial bank in Mongolia rated by Moody's Investor Service.



# REWARDS AND ACHIEVEMENTS OF 2009

- CommerzbankAG, Germany awarded TDB by "Excellent Quality of Straight through Processing Award 2008" prize.
- TDB awarded by "The Best Spread Bank" prize of Mongolian Financial Market Association.
- The bank was awarded "Reliable tax payer's title by the National Tax Authority.
- B.Medree, CEO of the bank was awarded by "Red Flag Medal of Labor Victory".
- D.Khurelbaatar, D.Yanjmaa and N.Badamgarav were awarded by "The Order of Polar Star" medal, D.Gantugs, S.Ganbat and D.Oyuntsetseg were awarded by "Honored Labor Medal", and S.Sugar and M.Dolgor were awarded by "Red Flag Medal of Labor Victory".
- S.Sanchir and Ts.Baasanjav were rewarded by the Ulaanabaatar City awards.
- The bank became the winner of the interbank football competition 2009.



## 2006

Internet banking complex service introduced with two-step customer authentication system for the first time in Mongolia using VASCO equipment.



## 2008

TDB launched International Master cards and first time started issuing of Euro MasterCard into the Mongolian card market.

2005

2006

2007

2008

2009



## 2007

First ever public placement of debt by a Mongolian bank in the International capital markets with a USD 75 million senior unsecured bond issue within a USD 300 million Euro Medium Term Notes Program in January 2007.



## 2009

Mining department established and started dedicated services to major mining corporates.



# BUSINESS ACTIVITIES





# CORPORATE BUSINESS

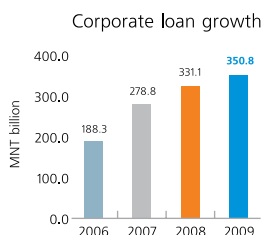


- CORPORATE BANKING
- SME BANKING

# CORPORATE BANKING

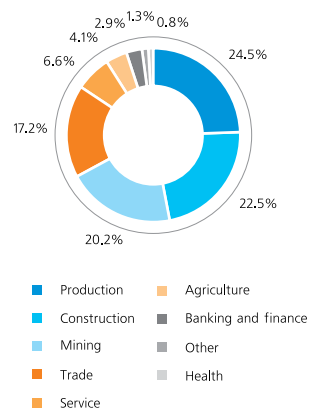
Corporate banking is the core activity of TDB. The bank's corporate banking department provides services to businesses and organizations which contribute significantly to the economy of Mongolia.

Although 2009 was a challenging year because of international and domestic market situation and financial crisis faced by the world economy, TDB's corporate banking department has been serving continuously its customers. Services offered to the customers include various traditional banking products, financial analysis and consultancy. The total corporate loans of the bank accounted MNT 350.8 billion or 87.5 percent of the bank total loans.



As customers received loans mainly in MNT or transferred their foreign currency loans into MNT because of exchange rate fluctuations, MNT loans in total loan portfolio increased 4 percent from the previous year reaching 40 percent of it.

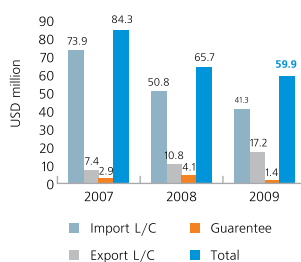
Corporate loan by economic sector



The bank conducted the following activities in 2009 to support its corporate banking customers:

- To support construction sector customers whose operations were stressed because of the economic downturn favorable term mortgage loans were provided to individuals who wanted to purchase apartments from client companies. Besides, for the above purpose the bank cooperated actively with Mongolian Mortgage Corporation and Ministry of Finance;
- Participated in "4,000 housing" exhibition organized by Mongolian Mortgage Corporation and promoted client companies' products;
- To support customers and reduce interest pressure on them, several favorable term project loans were arranged. Those include medium term project loans by the World Bank and KfW, Germany, and syndicated loans with various international banking institutions.

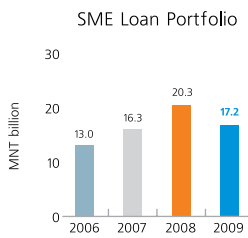
Trade Finance Volume



- In the reporting period the bank's total trade finance volume reached USD 60 million and it was a significant success in the time of economic recession. TDB has over USD 100 million's trade finance lines established by more than 20 international banks and has been serving the international trade finance needs of its customers through various documentary credit instruments such as letters of credits, guarantees and other instruments.

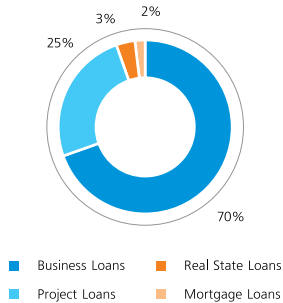
## SME BANKING

As a result of the tight monetary policy of 2009 the amount of money in circulation was reduced substantially in order to keep down inflation and to stabilize the value of the local currency. However, this policy impacted negatively on banks' lending activities. Measures such as an increase of the policy rate at the beginning of the reporting year, a rising of annual interest rates of 12 weeks term securities of the Central Bank up to 20 percent, and a growth of short term bond issuance reduced potential lending resources to SMEs. Moreover, a decline of customers' purchasing power resulted in a sales downturn of SMEs.



An economic stagnation was observed in all business sectors and the scope of activities of mining and construction sector SMEs shrunk by 50-70 percent. All these situations had a negative impact on the quality and size of the SME loan portfolio.

SME Loan Portfolio composition



TDB focused on providing medium term loans funded by two-stage loan programs such as by Japan Bank for International Cooperation, which supports SME development and environment protection, private sector development loan program by the World Bank and SME Development Loan Fund of the Ministry of Food, Agriculture and Light Industry. Due to the above initiatives, and development of the necessary skills and experiences of staff, the amount of SME project loans increased by 1.75 times and number of this category loans doubled from the previous year.

Total amount of SME loan granted by the bank during the reporting period was MNT 9.96 billion, making the total portfolio MNT 17.25 billion by the end of 2009.







# RETAIL BUSINESS

TDB's activities in the retail market have been intensifying during the last years by expanding the types of products and services for individuals. Within the scope of this strategy various new products which fit the needs of our customers have been launched successfully. Widening the bank's scope of activities TDB opened three new sub-branches in Bayangol and Bayanzurkh districts and increased number of ATMs up to 60.



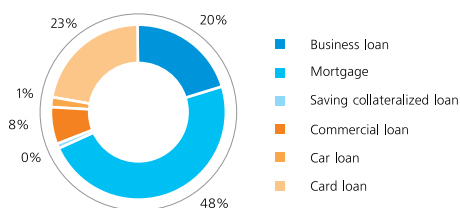
# RETAIL BANKING

## Lending activities

Within the flexible lending policy for 2009 the bank provided more favorable term loans to its customers. Interest of mortgage loans was reduced and terms were extended. As a result 48 percent of retail loan portfolio consisted of mortgage loans.

The bank cooperated with Mongolian Mortgage Corporation to support secondary and asset backed security market development on the basis of a cooperation agreement. Within the framework of this cooperation new financial negotiations have been done and mortgage pool underwriting and mortgage pool purchasing activities have been implemented successfully. All those activities were very significant for the development of mortgage products, including their monitoring and automation of accounting. Moreover the first agreement with the Corporation to purchase and sell MNT 4.7 billion of asset backed securities was established.

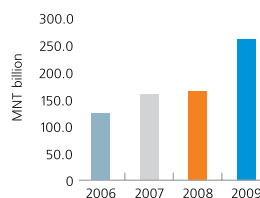
Composition of loan portfolio



## Payment activities

The bank's pricing policy for international and domestic payments of cash and non-cash transactions has been competitive in the market and very favorable to customers. It has resulted in an increase in numbers of customers by 18 percent.

Retail saving deposit



## Saving products

Total retail savings of the bank have been increasing from a year to a year, and it reached MNT 258.3 billion in 2009, out of which MNT 74.5 billion was demand deposit and MNT 183.8 billion was time deposit, representing a total retail savings increase of 56.4 percent over the 2008 total of 165.1 billion.

## Cheque service

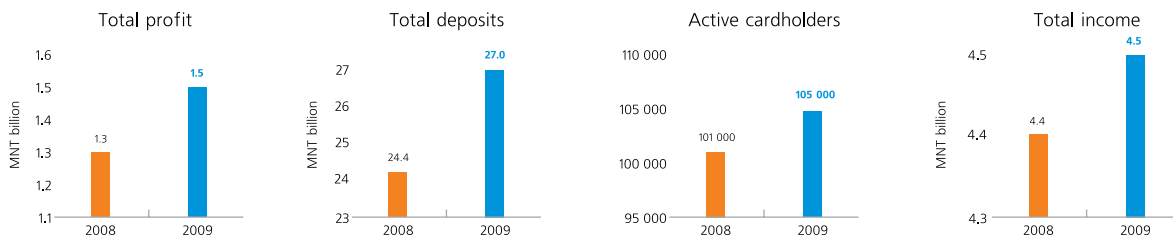
TDB receives and provides various cheques, including all traveler's cheques of American Express, USD payment cheques of Standard and Chartered Bank, Singaporean dollar cheques of OCBC Bank, and GBP cheques of HSBC Bank. Moreover, it provides American Express Gift Cheque, which is able to be converted into almost any currency in the world.

## Card service

To strengthen its card service position in the market the bank's Card Center was restructured into Card Management Department (CMD) with a sub-branch status. In addition, the scope of various card services has been widened and the service quality improved, providing more opportunity for the card holders.

The number of active card holders of the bank exceeded 100,000 and merchant service organizations reached 900 in 2009.

Although total deposit growth stagnated in 2009 compared with the previous years, deposits collected by the CMD's customers increased by 11 percent from 2008, reaching MNT 27.0 billion. The bank's card service activities demonstrated promptness and safety of the network system as well as its functional services to the retail customers, to meet well their demands.

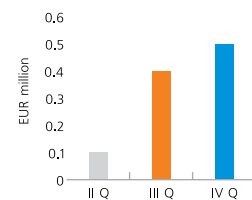


## Money transfer

A service to receive transfers in EUR through the international money transfer network Moneygram was launched successfully for the first time in Mongolia in 2009. The service provides opportunities to Mongolians in Europe and abroad to receive and transfer money in Euros within ten minutes without any conversion challenges.

Moreover, Pay Easy money transfer service was launched in cooperation with Hana Bank of Korea and Pay One Company to provide cheap and prompt transfers to Mongolians who work and live in Korea.

Volume of Euro Receive transactions by MoneyGram (2009)

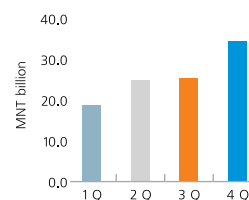


## Advanced technology products

The bank offers the widest variety of advanced technology banking products in Mongolia which are provided through electronic channels and allow customers saving of their time considerably such as SMS banking, internet banking, facsimile banking, e-billing, fly card and Fly payment. Total amount of money transfers made via internet banking increased by 31 percent in 2009 from the previous year.

The number of customers who used e-billing service increased by 288 percent from the previous year, evidencing the successful implementation of advanced technology products of the bank.

Total transactions (2009)



# INTERNATIONAL AND INVESTMENT ACTIVITIES





## INTERNATIONAL AND INVESTMENT BANKING

Although the world economy was facing difficulties last year TDB was able to expand its international relations and cooperation. The bank not only secured its business relations with correspondent banks but also established new relationships. Moreover, it was able to pay its bonds issued in the international capital market before the maturity. Overall, the bank's international banking operation was successful in the reporting period.

The International and Investment Banking department (IIBD) covers four main areas of business. The first is correspondent banking or relations with financial institutions and its activities include developing relations with various international institutions and attracting different partners. Trade finance lines and nostro accounts management is also part of this activity. Third major area of IIBD is syndicated lending activities which involve arranging syndicated loan club deal activities for its local corporate customers. Since 2008, based on the successful placement of its corporate bonds on the international capital market, the new initiatives of investment banking services have been starting as the one of main activities of the Department.

### Correspondent relations

New correspondent relations were established with Sberbank of Russia, Hana Bank of Korea and Halyk Bank from Kazakhstan. Correspondent accounts opened with Sberbank in RUB and USD enabled the bank to make customers' payments more promptly and with reduced fees. Moreover, the bank became able to do banknote business of CNY in cooperation with China Construction Bank, opening more possibilities of liquidity in serving its customers who are in need of this currency.

Approval of the USD 25 million's trade finance line by Rosselhoz Bank, Russia in April 2009, to support agricultural sector of Mongolia, and lending to TDB borrowers through this credit line for Spring sowing was a crucial contribution to the Third Agriculture Campaign conducted in Mongolia. Farmers benefited from this financing to purchase seeds and necessary machinery.

The bank participated as a successful organizer, general sponsor and lead donor of events dedicated to increase the flow of foreign direct investment into Mongolia's economy, such as Euromoney-2009 conference in Hong-Kong and Mongolia-Europe Investors Forum held in London, UK in cooperation with Foreign Investment and Foreign Trade Agency of Mongolia.

### Syndicated loans and project financing activities

Within the framework of "Private Sector Development Credit-2" program by the World Bank sixteen customers of the bank received project sub loans totaling USD 2.9 million and MNT 2.3 billion by the end of 2009.

Moreover, within this World Bank program TDB has received a technical support to improve knowledge and qualification of the bank staff. The training program, developed by the bank, was approved and financed by the World Bank.



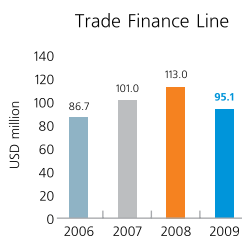
TDB was selected as a participating bank of two stage loan program by Japan Bank for International Cooperation which supports SME development and environment protection. By the end of 2009, 6 customers of the bank received USD 43.8 thousand and MNT 714.6 million loans from the program funding.

The bank has been an implementer of SME support program loans by KfW bank, Germany during the last 10 years. This program enables the bank customers to receive loans in EUR.

TDB arranged syndicated loans in the total amount of USD 12 million to its customers in 2009 in cooperation with VTB bank, Austria. Moreover the bank attracted USD 4.5 million-lending loans for its borrowers in cooperation with MG Leasing Corporation, Japan. USD 1.7 million's funding was raised in cooperation with Atlantic Forfeiting Bank, Switzerland and financed the Agricultural Support Fund within Ministry of Food, Agriculture and Light Industry.

## Trade finance

IIBD considers the servicing of international trade operations to be one of its core lines of business as supporting its customers' cross border trade operations by providing payment and settlement services in connection with their import and export operations and by issuing import letters of credit, stand-by and revolving letters of credit and issuances of guarantees.



In 2009 the bank was able to obtain USD 17.2 million in inter-bank loans from banks, such as Korea EXIM, Rosselkhoz, Taiwan EXIM and Atlantic Forfeiting within the scope of trade finance lines opened with those banks. Although some of foreign banks took measures to tighten risk policy because of the global economic downturn, Rosselkhoz bank approved USD 25 million credit line for TDB in 2009. In addition, credit lines with Atlantic Forfeiting and ING Bank were renewed in 2009.

## Investment banking

Investment banking products are one of the main spheres of the Bank's future growth as TDB has powered its position in terms of all market segments and has achieved new level of client services by moving from basic service types to more diversified packages of investment and banking products. Investment banking has made significant progress across businesses and is targeting the substantial opportunities as part of its ongoing strategic initiatives in debt and equity capital markets. We are building investment banking initiatives on existing strengths that our corporate customers' base and the Bank's experience in debt notes issued in the international capital market.

TDB became first ever Mongolian corporation to tap the international public debt market with an inaugural issuance of USD 150 million Euro Medium Term Note Program (EMTN Program) and sold the USD 75 million three years bonds with the coupon rate of 8.625 successfully in January 2007. Through this EMTN program the bank improved its funding profile to provide longer term financing at more affordable interest rates and it was a big success not only for TDB but also for the Mongolia. The bank repaid 42.2 percent of USD 75 million bonds, which was due in January 2010, before the maturity in September 2009. The successful full repayment of the bond in January enabled TDB to reaffirm its attractiveness to investors for future fund raising.



# TREASURY AND TRADING ACTIVITIES



# TREASURY

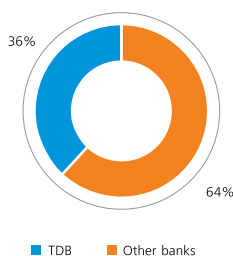
## Currency market

As a bank offering international payments and transfers in the most types of currencies in the Mongolian financial market, TDB performed solely 36 percent of domestic currency trading in 2009, maintaining its leading position in the international payment market.

The bank regularly provides cash and non-cash trading in more than 14 major currencies. Total amount of currency trading has been increasing as a result of the bank's policy to have the most rational and flexible rates.

In order to make currency trading transfers more smooth and fast a new and advanced technology system GRATS was implemented in 2009 and welcomed very well by the customers.

Market share by foreign exchange market

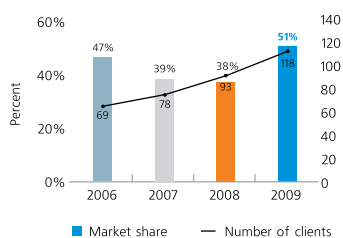


## Gold market

TDB started gold trading operations first among Mongolian commercial banks. The bank maintained its leading position in the gold market in 2009 and expanded scope of activities.

TDB collaborated closely with leading companies and entities of Mongolian mining sector as well as new customers meeting their short and medium term financing needs and providing newer financial products, services and information constantly.

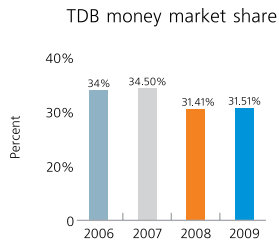
Domestic tangible gold market



The "Gold Finance Conference" was organized successfully in February 2009 in cooperation with the Bank of Mongolia involving not only gold businesses but also government decision makers and officials. Moreover, to expand its market the bank started to purchase tangible gold from individuals for the first time among Mongolian commercial banks. The activity was appreciated highly by the customers.



## Money market



While liquidity of financial market organizations was undermined with the impact of the global financial crisis, TDB has constantly increased its liquidity to fulfill successfully its duties and responsibilities for the current and saving account holders.

Total portfolio of Central Bank securities increased by 2.2 times from the previous year, reaching MNT 85 billion at the end of 2009. The bank supported the placement of saving accounts with the Bank of Mongolia for the time of economic recession. As a result the bank had the biggest amount of savings with the central bank which equals 68 percent of the BOM's total savings. Total amount of interbank savings and loans had increased by 21 percent from the previous year.

## Asset and liability management

Within the framework of asset-liability management policy, the bank increased liquidity of assets as well as profitability and decreased the funding cost. As a result, the percentage of interest earning liquid assets in the total assets, such as central bank securities and short term deposits from financial institutions has increased.

Moreover due to the intensification of activities to attract free capital inflows of big government and private organizations as a mutually profitable saving deposit, the total corporate savings increased by 74 percent from the previous year, reaching MNT 76 billion.



# RISK MANAGEMENT





# RISK MANAGEMENT

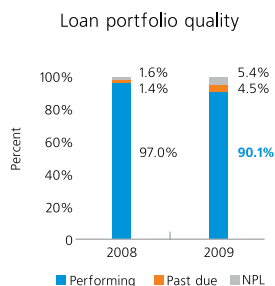
A good risk management is crucial for a successful banking operation. TDB's risk management system performed at various levels within the bank and it includes: Loan risk management, Market risk management, Operational risk management, Liquidity risk management and Interest rate risk management.

A risk management policy consistent with international banking and BASEL Committee standards was developed. The policy became a significant strategic document to retain the bank's sustainable development and support its profitability through maintaining the lowest loss given default.

## Loan risk management

Within the loan risk management activities the bank has taken following measurements:

- A loan collateral policy became more transparent and specific with the development of the new "Loan Collateral Policy" and "Collateral Evaluation Procedure";
- In order to improve a loan monitoring system, a maximum limit for loan screening was set for branches. Branch loans amounted above MNT 100 million were centralized into the Corporate and SME banking departments. Monitoring of small loans granted by the branches was tightened and each overdue loan was re-discussed at the Loan Committee, which resulted in a reduction of non-performing small loans by 21.9 percent from the previous year;
- Moreover, loan risks of construction sector which were subjected significantly to economic downturn were reduced through granting of MNT 6.7 billion's mortgage loans to individual customers from the bank's construction sector corporate customers.



In 2009, as the economy has slowed, the growth of many companies has also slowed. Maintaining strong earnings, liquidity and good credit quality were keys to help us to getting through the economic downturn. Although the bank's NPL ratio increased to 5.4% during the year, that's well below the average NPL ratio for Mongolian banking sector.





## Market risk management

Risk Management Department (RMD) is involved in market risk management activities of the bank daily and reports their results to the bank's senior management constantly. RMD monitors compliance of the market risk management policy and limits set by the Asset-Liability Committee regularly.

Since 2003, RMD has been applying VaR method (Value at Risk) to evaluate the bank's commercial portfolio. And it monitors daily if values measured by this method were within the limits set by the Asset-Liability Committee.

VaR values in the reporting period:

Year	Max. VaR value	Min. VaR value	Average VaR value
2009	567,909,708	15,903,860	139,945,043

In addition, RMD applies a back-testing method to ensure if losses from the bank's portfolio were measured realistically. As a result, profit and losses exceeded VaR values are monitored daily if they were in approved amounts of confidence levels, or BASEL Committee requirements. Results of the back-testing were within the green line of BASEL Committee requirements during the reporting period.

Back-testing results of the reporting period:

Back-testing (250 days)	BASEL Committee requirement	
	Exceeded value	Line
VAR value (confidence level 99%)	1	Green
VAR value (confidence level 95%)	8	Green


During the reporting period situation analysis were done to evaluate the bank's commercial portfolio risks for the exceptionally fluctuating time of market parameters. And the bank portfolio losses given default were monitored and a related management information system has been improved.

## Liquidity risk management

The purpose of liquidity risk management system is lessening of negative impacts to the country's economic and financial system and protection of deposit holders and shareholders' rights through resolving problems and difficulties faced to the bank's liquidity.

The bank's liquidity risk management strives to sustain profits of banking activities at a potentially maximum level and fulfill its financial duties timely and fully.

The following principals have been adhered in the evaluation and management of the bank's liquidity risk:

- 
- Making a liquidity provision constant, maintaining of liquid assets ratio in the balance sheet at a prudent level, calculating factors and developing methods to overcome periods of difficulties;
  - Defining and accumulation of reserve assets to overcome emergent periods in the market;
  - Defining of potential timings to face liquidity shortages in addition to analysis into future flows of assets and liabilities, and implementation of necessary actions.

## Interest rate risk management

The bank's interest rate risk management aims to lessen effects in a net interest income resulted by interest rate changes, to maintain the balance sheet composition in a way to have positive results in outcomes of banking activities from interest rate changes and to monitor interest rate changes.


Interest rate risk management activities of the bank during the reporting period have been striving to sustain and monitor a profitable interest rate risk management structure.

A profitable interest rate risk management contains sequential steps of risk management such as defining, measuring, reducing and monitoring of risks. The following specifics are concerned during the implementation of those activities:

- Identification of interest rate risks occurred within the scope of new and current services, definition of duties and responsibilities related with them, development of a system to measure interest rate risks, and implementation of a risk management strategy;
- Defining and calculation of the bank's interest rate risk management reserve potentials for every time sphere;
- Providing of information on the bank's interest rate risks to operational managers officially and within a frequent time lines, and monitoring of interest rate risk values to ensure if they were within the set limits on the basis of this information;
- Conducting of an external and independent monitoring for the implementation of interest rate risk management, supervision of compliances of risk limit related procedures and reporting.

## Operational risk management

In order to implement operational risk management constantly and continuously, Operational Risk Management Division was established. The division provided opportunity and environment to manage compliance risks first time in the banking and financial sector of Mongolia, implementing the term "compliance risk". Overall the event added into the development of risk management.



In 2009, within the operational risk management activities the bank took following actions:

- A risk based top-down approach is used in the bank's operational risk management. As a result, measures to reduce internal operational risks and to predict from fraud risks faced to the bank from outside banking environment have been implemented successfully. Particularly, activities to get information on risks from internal and external resources and exchange information on operational risks facing to the entire banking system were initiated, and first steps to implement them were taken successfully in cooperation with Mongolian Bankers Association;
- TDB initiated activities to be able to receive information from internal and external sources and to exchange information on operational risks faced by the entire system. First steps to exchange the information have been started in cooperation with the Mongolian Bankers' Association. With the implementation of an operational risk management system, all of the bank staff, from front level employees to managers, received an actual understanding on operational risks and process of identification and reporting of the risks;
- The work to establish a consolidated risk information system and its automation have been started;
- The bank defined its policy of compliance risk management within the directives of combating money laundering and terrorism financing, compliance with necessary legal standards in banking operations, and obedience with market ethics. The policy has been implemented in the bank.





A woman with long dark hair and glasses, wearing a white short-sleeved blouse with a ruffled collar and a grey and white checkered vest, stands behind a man. She is smiling and looking towards the man. The man has short dark hair and glasses, wearing a light purple short-sleeved button-down shirt and a dark tie. He is wearing a blue lanyard with a badge and is looking down at a device in his hands. In the background, there is a computer monitor and a desk. The lighting is warm and comes from a window with vertical blinds on the right.

# HUMAN RESOURCES



## HUMAN RESOURCE MANAGEMENT

Human resources are at the core of organizational success and sustainability. TDB's human resource policy in 2009 was to provide employees the possibility to work sustainably in a secure working place, to select skillful employees and to provide them appropriate jobs. Moreover, the Human Resource Department of the bank was successful in training and promoting staff and deciding their social issues.

### Rewards and benefits management

Although the year was challenging because of the economic situation, the bank was able not only to retain salaries and bonuses of its employees but also to raise them. Total amount of salaries and bonuses were increased by approximately 15 percent from the previous year.

Forty best employees of the bank were rewarded by a free tour to Cheju Island of Korea, and eighteen employees were provided a tour to the most beautiful places around Mongolia.

The bank promoted its best staff not only for the bank's prizes but also for the rewards of Mongolian Government. Accordingly, 8 employees of the bank were awarded by the Government and 40 employees by the Bank of Mongolia and the bank's own prizes.

### Training

TDB emphasizes significantly on training of employees through using new approaches and methodologies and sending them to international and domestic trainings. In 2009, with double counting, 1128 of the bank employees were sent to training courses abroad as well as in Mongolia. New training approaches such as online trainings, trainings based on video and TV conference were implemented successfully. Moreover internal trainers were prepared.

Mr. Peter Stajkoski, a banker and an experienced trainer from Germany conducted a three day short term training for the bank employees according to the bank's invitation. It was a very specific and efficient training.

Department and branch directors attended a series of training "Directors management" twice, which was conducted by Mr. Rolf D.Werle, manager of GTZ project with the Bank Training Center.





IT DEVELOPMENT

# INFORMATION TECHNOLOGY

TDB strengthened its leading position of an implementer of new and advanced information technology products in the banking and financial sector in 2009, and implemented several big projects.

## Renewal of the core banking system

The renewal and improvement of its core banking system allowed the bank to simplify and automate the internal banking activities. In order to reduce risks several reporting programs were developed and implemented with the new core system.

## Asset management system GRATS

The complex asset management system GRATS, which enables more efficient and non-risk trading and accounting services to our customers and to perform fast and reliable trading with local and foreign banks was implemented. Moreover, the system provided an accounting and control automatization of the bank's operations such as currency trading, precious metals trading, securities trading, money market activities, back office activities, risk management activities; and consolidated management of nostro accounts.

## Trade finance system

An implementation of the system contributed to the development of Mongolian banking system significantly as it automates and consolidates all activities of LC, guarantees and international trade payments including preliminary and medium level accounting, back office accounting and controlling, risk management operations and reporting.

## Acceptance of EMV chip cards of VISA and MasterCard

The bank became eligible to accept EMV chip cards of VISA and MasterCard through their own network from 2009. Also the bank started to send card transfer information to customers' mobile phones online via SMS and e-mail.

The bank's ATMs and POS terminals network was expanded and ATMs, branches and sub-branches were connected into a high-speed broadband cable network.





# SOCIAL RESPONSIBILITY

TDB has been supporting and donating for the well being and future of the society. Activities conducted in 2009 within the framework of this policy include:

- The bank acted as a general sponsor of the Asia-Mongolia Investors forum 2009, organized by Euromoney, held in Hong-Kong
- Worked as a general sponsor and a lead donor of "Europe and Mongolia's Investors Forum" organized by Foreign Investment and Foreign Trade Agency of Mongolia in London, UK
- Organized and was a general sponsor of "Second conference of currency trading specialists of Mongolia"
- Worked as a general sponsor of "Silver ring", Mongolian journalists' basketball competition
- Supported "Let's say-Yes to the children" campaign with the bank's donation
- Was a general sponsor of the hiking around Mongolia by senior citizens
- Donated technical equipments to the Radio and Television University students for their successful study
- Provided donation and sponsorship to support the activities of National Statistical Office and to encourage its employees
- Sponsored "Duulian 2020" indoor football competition, held under the patronage of President of Mongolia



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**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**  
*Financial Statements*

December 31, 2009 and 2008  
(With Independent Auditors' Report Thereon)



**KPMG Samjong Accounting Corp.**

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## Independent Auditors' Report

### Members

Trade and Development Bank of Mongolia LLC:

We have audited the accompanying financial statements of Trade and Development Bank of Mongolia ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as at and for the year ended 31 December 2008, which were audited by another auditor whose report dated 24 February 2009, expressed an unqualified opinion on those statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the



financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

#### Other Matters

This report is made solely to the members of the Bank, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
30 June 2010  
Seoul, Korea

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

**Statements of Financial Position**

December 31, 2009 and 2008

	Note	2009 MNT'000	2008 MNT'000
<b>Assets</b>			
Cash and cash equivalents	4	266,984,760	140,811,540
Investment securities	5	90,300,363	38,816,493
Loans and advances	6	406,214,658	440,259,284
Reverse repurchase agreements	7	799,556	-
Subordinated loans	8	7,000,000	4,000,000
Property and equipment	9	21,439,909	21,848,077
Intangible assets	10	800,719	983,090
Foreclosed properties	11	2,099,347	274,381
Other assets	12	14,724,800	12,282,483
<b>Total assets</b>		<b>810,364,112</b>	<b>659,275,348</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits from customers	13	579,522,778	374,470,074
Deposits and placements of banks and other financial institutions	14	31,469,241	33,477,716
Borrowings	15	53,301,993	59,036,580
Current tax payables		1,343,586	476,004
Debt securities issued	16	59,639,556	94,457,535
Other liabilities	17	17,946,008	18,719,939
<b>Total deposits, loans, taxation and other liabilities</b>		<b>743,223,162</b>	<b>580,637,848</b>
Subordinated borrowings	18	-	10,140,080
<b>Total liabilities</b>		<b>743,223,162</b>	<b>590,777,928</b>
<b>Shareholder's equity:</b>			
Share capital	19	6,610,113	6,610,113
Share premium		7,392,191	7,392,191
Treasury shares	20	(6,456,232)	(6,456,232)
Revaluation reserves		13,683,324	13,683,324
Retained earnings		45,911,554	47,268,024
<b>Total shareholders' equity</b>		<b>67,140,950</b>	<b>68,497,420</b>
<b>Total liabilities and shareholders' equity</b>		<b>810,364,112</b>	<b>659,275,348</b>

See accompanying notes to financial statements

**Statements of Comprehensive Income**

Years ended December 31, 2009 and 2008

	Note	2009 MNT'000	2008 MNT'000
Interest income	21	77,313,558	71,218,232
Interest expense	22	(45,743,365)	(33,646,375)
Net interest income		31,570,193	37,571,857
Net fee and commission income	23	6,054,442	6,989,451
Other operating income (expense)	24	6,054,990	(6,964,865)
Net non-interest income		12,109,432	24,586
Operating income		43,679,625	37,596,443
Operating expenses	25	(17,683,001)	(15,864,588)
Allowance for impairment losses	26	(8,426,289)	(1,817,730)
Profit before tax		17,570,335	19,914,125
Corporate income tax	27	(2,598,784)	(3,579,470)
Net profit for the year		14,971,551	16,334,655
Other comprehensive income, net of income tax			
Revaluation of property and equipment		-	8,910,674
Total comprehensive income		14,971,551	25,245,329

See accompanying notes to financial statements



TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

**Statements of Changes in Equity**

Years ended December 31, 2009 and 2008

	Note	Share capital MNT'000	Share Premium MNT'000	Treasury Shares MNT'000	Revaluation reserve MNT'000	Retained earnings MNT'000	Total MNT'000
<b>January 1, 2008</b>		6,610,113	7,392,191	(5,826,092)	4,772,650	47,321,200	60,270,062
Net profit for the year		-	-	-	-	16,334,655	16,334,655
Revaluation of property and equipment		-	-	-	8,910,674	-	8,910,674
Total recognised income and expense for the year		-	-	-	8,910,674	16,334,655	25,245,329
Dividends to equity holders	<b>28</b>	-	-	-	-	(16,387,831)	(16,387,831)
Purchase of treasury shares	<b>20</b>	-	-	(630,140)	-	-	(630,140)
<b>December 31, 2008</b>		6,610,113	7,392,191	(6,456,232)	13,683,324	47,268,024	68,497,420
<b>January 1, 2009</b>		6,610,113	7,392,191	(6,456,232)	13,683,324	47,268,024	68,497,420
Net profit for the year		-	-	-	-	14,971,551	14,971,551
Total recognised income and expense for the year		-	-	-	-	14,971,551	14,971,551
Dividends to equity holders	<b>28</b>	-	-	-	-	(16,328,021)	(16,328,021)
<b>December 31, 2009</b>		6,610,113	7,392,191	(6,456,232)	13,683,324	45,911,554	67,140,950

See accompanying notes to financial statements

**Statements of Cash Flows**

Years ended December 31, 2009 and 2008

	Note	2009 MNT'000	2008 MNT'000
<b>Cash flows from operating activities:</b>			
Profit before tax		17,570,335	19,914,125
<b>Adjustments for:</b>			
Depreciation and amortisation	25	2,004,581	1,757,320
Amortized interest income		(559,184)	(645,826)
Property and equipment written off	25	2,630	10,253
Gain on disposal of property and equipment	25	-	(444)
Allowance for impairment losses	26	<u>8,426,289</u>	1,817,730
<b>Operating profit before changes in operating assets and liabilities</b>		27,444,651	22,853,158
Decrease (increase) in loans and advances		25,911,931	(59,682,249)
Subordinated loans disbursed		(3,000,000)	-
Decrease in other assets		(2,455,075)	(5,294,099)
Increase in deposits from customers		205,052,704	1,451,453
Increase (decrease) in deposits and placements of banks and other financial institutions		(2,008,475)	18,216,092
Decrease (increase) in foreclosed property		(2,105,802)	357,683
Increase (decrease) in other liabilities		(796,485)	16,819,208
<b>Cash flows provided by (used in) operations</b>		248,043,449	(5,278,754)
Corporate income tax paid		(1,731,202)	(4,558,786)
<b>Net cash flows provided by (used in) operating activities</b>		<u>246,312,247</u>	<u>(9,837,540)</u>
<b>Cash flows from investing activities:</b>			
Proceeds from disposal (purchase) of investment securities		(50,859,226)	9,337,135
Purchase of reverse repurchase agreements		(799,223)	-
Purchase of property and equipment		(1,169,993)	(2,739,300)
Purchase of intangible assets		(246,679)	(294,635)
Proceeds from disposal of property and equipment		-	34,159
Purchase of unquoted equity securities		(65,793)	(1,083,675)
<b>Net cash flows provided by (used in) investing activities</b>		<u>(53,140,914)</u>	<u>5,253,684</u>

See accompanying notes to financial statements

**Statements of Cash Flows, continued**

Years ended December 31, 2009 and 2008

	Note	2009 MNT'000	2008 MNT'000
<b>Cash flows from financing activities:</b>			
Proceeds from (repayment of) borrowings		(5,734,587)	51,648,931
Repayment of debt securities issued		(34,817,979)	-
Purchase of treasury shares		-	(630,140)
Repayment of subordinated borrowings		(10,140,080)	-
Dividend paid		(16,305,467)	(15,999,332)
<b>Net cash flows provided by (used in) financing activities</b>		<b>(66,998,113)</b>	<b>35,019,459</b>
<b>Net increase in cash and cash equivalents</b>		<b>126,173,220</b>	<b>30,435,603</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>140,811,540</b>	<b>110,375,937</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>266,984,760</b>	<b>140,811,540</b>

See accompanying notes to financial statements



## 1. Organization and business

Trade and Development Bank of Mongolia LLC (the Bank) is a Mongolian domiciled limited liability company, incorporated in accordance with the Company Law of Mongolia. The Bank was given a special permission to conduct banking activities by Decree No.3/149 issued by the President of Bank of Mongolia on 29 May 1993 in accordance with Banking Law of Mongolia and License No.8 was renewed by Bank of Mongolia on 27 February 2002.

Pursuant to the aforementioned resolutions, license and charter, the Bank conducts banking activities such as cash savings, lending, handling and settlements of cash transfers, foreign currency transactions and other banking activities through its 19 branches and four settlement centers. There have been no significant changes in the nature of these activities during the year.

The holding company of the Bank is Globull Investment and Development (SCA), owning 65.83% of interest of the Bank, incorporated in Luxembourg and its ultimate holding company is US Global Investment LLC, incorporated in the United States of America. US Global Investment LLC is a consortium owned by Ulaanbaatar City Bank, Capitron Bank, Central Asia Mining LLC and Mr. Erdenegileg Doljin (the current Chairman of the Bank).

## 2. Basis of preparation

### Statements of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as modified by Bank of Mongolia guidelines. The major items that are not compliant with IFRS include the followings and the details are included in the corresponding notes:

- Allowance for loan loss reserves, receivables, letters of credit, unused credit commitments and foreclosed properties
- Accounting for deferred tax

The financial statements were authorised for issue by the Board of Directors on 30 June 2010.

### Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- Available-for-sale financial assets that have been measured at fair value
- Property and equipment which are subsequently measured at fair value

### Functional and presentation currency

The financial statements are presented in Mongolian Tugrug ("MNT"), rounded to the nearest thousand. MNT is the Bank's functional currency.

### **Use of estimates and judgements**

The presentation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 31 and 32.

### **Changes in accounting policies**

#### **(i) Determination and presentation of operating segments**

IFRS 8 Operating Segment requires a reporting entity to determine and present operating segments based on the information that internally is provided to the chief operating decision maker. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The Bank operating segment is determined and presented based on the Bank's management and internal reporting structure and adoption of IAS 8 did not have material impact to the Bank.

#### **(ii) Presentation of financial statements**

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The Bank's adoption of revised IAS 1 did not have material impact to the Bank's financial statements.

#### **(iii) Accounting for business combinations**

The Bank has adopted IFRS 3 Business Combinations. The change in accounting policy is applied prospectively and had no impact on the Bank's financial statements.

#### **(iv) Disclosures pertaining to fair values and liquidity risk for financial instruments**

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7). Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

#### **(v) Puttable financial instruments and obligations arising on liquidation**

Effective 1 January 2009, the Bank has applied amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation that provide exemptions from financial liability classification for:

- puttable financial instruments that meet certain conditions
- certain instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

The application of the amended requirements did not have any impact on the Bank's financial statements.

### **3. Significant accounting policies**

The accounting policies set out below have been consistently applied by the Bank and are consistent with those used in previous years other than new accounting policies adopted by the Bank in the current year.

#### **Foreign Currency transactions**

Transactions in foreign currencies are translated to MNT at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are retranslated to MNT at the foreign exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to MNT at foreign exchange rates ruling at the dates that the fair values were determined.

#### **Financial instruments**

##### **(i) Classification**

Financial assets and financial liabilities held for trading include debt securities, equity securities and securities acquired and held by the Bank for short-term trading purposes. Changes in fair value are recognized in current operations.

Derivatives recorded at fair value through profit of loss include certain derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Financial assets or financial liabilities at fair value through profit or loss include those financial assets and financial liabilities designated at initial recognition because 1) such designation eliminates or significantly reduces accounting mismatch; or 2) respective financial assets and financial liabilities are part of a group of financial assets, liabilities or both managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or 3) embedded derivative does not



meeting the unbundling criteria. Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value and changes in fair value are recorded in the current operations.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term trading. Originated loans and receivables comprise loans and advances to customers and are reported net of allowances to reflect the estimated recoverable amounts. Allowance is estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of Bank of Mongolia and Ministry of Finance.

Held-to-maturity assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity, and are not designated as at fair value through profit and loss or as available-for-sale. This includes certain investment securities held by the Bank.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

#### **(ii) Initial recognition**

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

#### **(iii) Subsequent measurement**

Subsequent to initial recognition, all financial assets and liabilities held for trading, derivatives recorded at fair value through profit or loss, financial assets and liabilities at fair value through profit or loss and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognised in the income statement and directly in equity, respectively.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity asset are measured at amortised cost less impairment losses where applicable. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### **Derecognition of financial assets and liabilities**

#### **(i) Financial assets**

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or the Bank has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria, or if it transfers substantially all the risks and rewards of ownership.

The Bank enters into transactions in which it transfers previously recognized financial assets but retains substantially all the associated risks and rewards of those assets. In transactions in which substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Bank

derecognizes the transferred asset if control over that asset, i.e. the practical ability to sell the transferred asset, is relinquished. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. If control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the transferred.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically-identified cash flow.

#### **(ii) Financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits and placements with banks and other financial institutions and balances with Bank of Mongolia.

#### **Property and equipment**

##### **(i) Cost**

Property and equipment are measured at cost/valuation less accumulated depreciation (refer below) and any impairment losses. The initial cost of an item of property and equipment comprises its purchase price, including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

The Bank revalues its property and equipment to ensure that the fair value of revalued assets does not differ materially from its carrying amount. Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same asset. In all other cases, a decrease in carrying amount is charged to the statement of comprehensive income.

## **(ii) Depreciation**

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

■ Buildings	40 years
■ Office equipment and motor vehicles	10 years
■ Computers	3-5 years

## **Construction-in-progress**

Construction-in-progress represents the cost of construction of new buildings and premises, which have not been fully completed or installed. No depreciation is provided for construction-in-progress during the period of construction.

## **Intangible assets**

### **(i) Acquired intangible assets**

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and any impairment losses.

### **(ii) Amortisation**

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful life is as follows:

■ Software and licenses	3 years
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## **Impairment**

The carrying amounts of the Bank's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

### **(i) Originated loans and advances**

Loans and advances are presented net of allowances for uncollectability. Allowances are made against the carrying amount of loans and advances that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and advances to their recoverable amount in accordance to Regulations on Asset Classification and Provisioning jointly approved by the President of Bank of Mongolia and Ministry of Finance (BOM Provisioning Guidelines). Increases in the allowance account are recognised in the statement of comprehensive income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

In accordance with the BOM Provisioning Guidelines, the Bank is required to determine the quality of loans and advances based on their qualitative factor and time characteristics in classifying them and create



provisions. Such model classifies the Bank's loans and makes allowances for loan losses at the rates of 1%, 5%, 25%, 50% and 100% (2008: 1%, 5%, 40%, 75% and 100%), based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. BOM Provisioning Guidelines also provide an exceptional clause that no provision is to be created for the performing loans and the Bank establishes no loan loss provisions for the performing loans in accordance with this principle. Under IFRS, impairment or uncollectibility of financial assets measured at amortized cost basis shall be measured at the difference between carrying amount and the net present value of future cash flows discounted at the financial asset's original effective interest rate.

Qualitative characteristics taken into consideration for credit classification include completeness of loan file, financial indicators of the borrower, value of the collateral and previous rescheduling of the loan, and etc.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### **(ii) Assets other than loans and advances and cash and cash equivalents**

The Bank assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the recoverable amount of the respective asset. The recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised in the statement of comprehensive income.

#### **Repurchase agreements**

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised on the statement of financial position. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase considerations is treated as interest income or expense and is accrued over the period of the agreement using the effective interest method.

## **Share capital**

### **(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of taxes.

### **(ii) Treasury shares**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

## **Provisions**

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability.

## **Segment reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

## **Revenue**

### **(i) Interest income**

Interest income and expense is recognised in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset. Interest income and expense include the amortisation of any discount or premium or other differences between the carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis except that the Bank does not amortize loan originating costs and fees on an effective interest rate basis but rather recognize them immediately in current operations..

### **(ii) Fee and commission income**

Fee and commission income is charged to customers for the financial services provided. Fee and commission income is recognised when the corresponding service is provided.

### **(iii) Rental income**

Rental income from leased property is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

### **Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense over the term of the lease.

### **Income tax**

Income tax on the profit or loss for the year comprises current tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

The Bank currently does not account for deferred tax for the temporary differences of which practice is allowed by Bank of Mongolia.

### **Employee benefits**

The Bank does not provide severance benefits to its employees except it provides employer's portion in accordance with statutory social insurance payments to the State Social Insurance Scheme. Contributions made by the Bank are recognised as an expense in the statement of comprehensive income as incurred.

### **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

### **New standards and interpretations not yet adopted**

A number of new IFRSs, amendments to IFRSs and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- IFRIC 17 Distributions of Non-cash Asset to Owners clarifies how a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation, IFRIC 17, which becomes mandatory for the Bank's 2010 financial statements, is not expected to have any impact on the financial statements.



- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have any impact on the Bank's financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements with retrospective application required, are not expected to have any impact on the Bank's financial statements.
- Revised IAS 24 Related Party Disclosures provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendments are effective for the Bank's 2011 financial statements and are not expected to have any impact on the Bank's financial statements.
- IFRS 9 Financial Instruments was issued on November 2009 as a first step to replace IAS 39. IFRS 9 introduces new requirements on classification and measurement of financial assets that are in the scope of IAS 39, on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest. A financial asset meeting the criteria to be measured at amortized cost basis can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Under IFRS 9, all equity securities must be measured at fair value but management has an option to present directly in equity unrealized and realized fair value gains and losses on equity instruments that are not held for trading where such designation must be made on initial recognition and is not irrevocable. IFRS 9 becomes mandatory for the Bank's 2013 financial statements and should be applied retrospectively upon adoption. The Bank is currently evaluating the potential impact on its financial statements.

### **Reclassification**

Certain prior year balances were reclassified to conform with current year's classification.

#### 4. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2009 and 2008 were as follows:

	2009 MNT'000	2008 MNT'000
Cash on hand	24,215,992	24,308,267(*)
Deposits and placements with banks and other financial institutions	63,061,651	81,037,257(*)
Balances with Bank of Mongolia (**)	57,065,717	16,452,838(*)
Deposits with Bank of Mongolia	<u>122,641,400</u>	19,013,178
	266,984,760	140,811,540

\* MNT 13.5 billion, MNT 5 billion and MNT 6.5 billion as included in cash on hand, deposits and placements with banks and other financial institutions, and balances with Bank of Mongolia, respectively, were pledged as collateral for the borrowings from Bank of Mongolia

\*\* Bank of Mongolia (BOM) requires that minimum 5% of average customer deposits for two weeks must be maintained with BOM. At 31 December 2009, the required reserve amount was MNT 30,180,852.

#### 5. Investment securities

	2009 MNT'000	2008 MNT'000
<b>Held-to-maturity investment securities</b>		
Bank of Mongolia Treasury bills	84,190,545	37,472,468
Promissory notes	<u>4,700,000</u>	-
	88,890,545	37,472,468
<b>Available-for-sale investment securities</b>		
Unquoted equity securities, at cost	<u>1,409,818</u>	1,344,025
	90,300,363	38,816,493

Unquoted equity securities represent investment made in unlisted companies and are recorded at cost as there is no market for them thus fair value cannot be reasonably estimated and the range of possible estimates is expected to be significant. The Bank plans to hold them on a long term basis.

#### 6. Loans and advances

	2009 MNT'000	2008 MNT'000
Loans and advances to customers	418,371,076	443,701,989
Loans to staff	2,966,184	<u>3,541,574</u>
	421,337,260	447,243,563
Allowance for loan losses	<u>(15,122,602)</u>	(6,984,279)
Net loans and advances	<u>406,214,658</u>	440,259,284

Movements in the allowance for loan losses during the year are as follows:

	2009 MNT'000	2008 MNT'000
Allowance for loan losses		
At 1 January	6,984,279	7,149,869
Charge for the year	8,301,114	3,797,395
Written back/recoveries	(168,419)	(2,066,287)
Written off	-	(2,093,976)
Effect of foreign currency movements	5,628	197,278
At 31 December	<u>15,122,602</u>	6,984,279

### Derecognition of loan portfolios

In 2008 and 2009, the Bank transferred its mortgage loans with carrying amounts of MNT 5,105,684,297 and USD 294,334 to Mongolian Mortgage Corporation LLC (MMC) in exchange of, respectively, the bonds issued by MMC and cash.

The loans were transferred on a recourse basis and do not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to MMC. Accordingly, the Bank accounted for these transactions as collateralized financing of which balance at 31 December 2009 amounted to MNT 5,129,577,418.

## 7. Reverse repurchase agreements

	Purchase date	Maturity	Interest rate	2009 MNT'000	2008 MNT'000
Capitron Bank	12/31/2009	01/04/2010	5%	799,556	-

The Bank entered into reverse repurchase agreements with Capitron Bank where the Bank purchases and resells investments at MNT 800,000,000 at maturity. The estimated fair value of securities purchased under resale agreements is MNT 799,888,904 as of 31 December 2009. The purchased securities are collateralized for the receivables pertaining to the respective agreements.

## 8. Subordinated loans

	2009 MNT'000	2008 MNT'000
Ulaanbaatar City Bank (UB City Bank)	4,000,000	4,000,000
Capitron Bank	3,000,000	-
	7,000,000	4,000,000

The loan to UB City Bank bears fixed interest of 8% per annum and is to be repaid in full on 25 September 2012 and the loan to Capitron Bank bears fixed interest of 12% per annum and is to be repaid in full on 14 August 2014.

## 9. Property and equipment

In MNT'000

	Land and buildings	Office equipment and motor vehicles	Computers	Construction-in-progress	Total
<b>At cost/valuation</b>					
At cost	87,132	2,135,822	2,666,234	712,879	5,602,067
At valuation	17,048,867	728,302	322,866	-	18,100,035
At 1 January 2009	<u>17,135,999</u>	2,864,124	2,989,100	712,879	23,702,102
Additions	43,543	183,228	552,739	518,501	1,298,011
Disposals	-	-	-	-	-
Write offs	-	(13,205)	(107,054)	-	(120,259)
Transfers	26,793	-	-	(154,151)	(127,358)
Elimination against accumulated depreciation	61,928	422,947	467,463	-	952,338
Revaluation surplus	-	-	-	-	-
At 31 December 2009	<u>17,268,263</u>	3,457,094	3,902,248	1,077,229	25,704,834
Representing items at:					
Cost	219,396	2,741,063	3,657,314	1,077,229	7,695,002
Directors' valuation	<u>17,048,867</u>	716,031	244,934	-	18,009,832
	17,268,263	3,457,094	3,902,248	1,077,229	25,704,834
<b>Accumulated depreciation</b>					
At 1 January 2009	59,485	545,265	1,249,275	-	1,854,025
Charge for the year	357,519	422,148	795,864	-	1,575,531
Disposals	-	-	-	-	-
Write offs	-	(11,523)	(105,446)	-	(116,969)
Elimination against cost	<u>61,928</u>	422,947	467,463	-	952,338
At 31 December 31, 2009	<u>478,932</u>	1,378,837	2,407,156	-	4,264,925
<b>Carrying amounts</b>					
31 December 2009	<u>16,789,331</u>	2,078,257	1,495,092	1,077,229	21,439,909



**Notes to Financial Statements, continued**

December 31, 2009 and 2008

In MNT'000

	Land and buildings	Office equipment and motor vehicles	Computers	Construction-in-progress	Total
<b>At cost/valuation</b>					
At cost	1,252,040	1,756,736	1,967,046	120,000	5,095,822
At valuation	6,500,483	888,579	426,170	-	7,815,232
At 1 January 2008	7,752,523	2,645,315	2,393,216	120,000	12,911,054
Additions	104,507	200,941	118,104	2,315,748	2,739,300
Disposals	-	(94,965)	-	-	(94,965)
Write offs	-	(72,685)	(103,304)	-	(175,989)
Transfers	938,370	185,518	581,084	(1,722,869)	(17,897)
Elimination against accumulated depreciation	(570,075)	-	-	-	(570,075)
Revaluation surplus	<u>8,910,674</u>	-	-	-	8,910,674
At 31 December 2008	<u>17,135,999</u>	2,864,124	2,989,100	712,879	23,702,102
Representing items at:					
Cost	87,132	2,135,822	2,666,234	712,879	5,602,067
Directors' valuation	<u>17,048,867</u>	728,302	322,866	-	18,100,035
	17,135,999	2,864,124	2,989,100	712,879	23,702,102
<b>Accumulated depreciation</b>					
At 1 January 2008	365,074	367,569	494,924	-	1,227,567
Charge for the year	264,486	301,378	857,655	-	1,423,519
Disposals	-	(61,250)	-	-	(61,250)
Write offs	-	(62,432)	(103,304)	-	(165,736)
Elimination against cost	<u>(570,075)</u>	-	-	-	(570,075)
At 31 December 2007	<u>59,485</u>	545,265	1,249,275	-	1,854,025
<b>Carrying amounts</b>					
At 31 December 2008	<u>17,076,514</u>	2,318,859	1,739,825	712,879	21,848,077

Details of the latest independent professional valuation of buildings valued by McHD LLC are as follows:

Date of valuation	Description of property	Valuation amount	Basis of valuation
31 October 2008	Land and buildings	17,048,867	Market value

The remaining property and equipment were revalued in 2005.

**Notes to Financial Statements, continued**

December 31, 2009 and 2008

Had the revalued property and equipment been carried at historical cost less accumulated depreciation, the carrying amounts of the revalued assets that would have been included in the financial statements at the end of year would be as follows:

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Buildings	2,221,126	2,292,775
Office equipments and motor vehicles	322,320	437,489
Computers	42,304	152,449

**10. Intangible assets**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
<b>Cost</b>		
At 1 January	1,911,569	1,599,037
Additions	119,321	294,635
Transfer (note 9)	127,358	17,897
At 31 December	2,158,248	1,911,569
<b>Amortisation</b>		
At 1 January	928,479	594,678
Amortisation charge for the year	429,050	333,801
At 31 December 31	1,357,529	928,479
<b>Carrying amounts</b>		
At 31 December	800,719	983,090

Intangible assets only consist of purchased software.

**11. Foreclosed properties**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Industrial buildings	998,866	1,107,936
Apartment buildings	2,484,101	170,935
Less: Allowances	(1,383,620)	(1,004,490)
	2,099,347	274,381

Properties and equipment acquired through enforcement of security over loans and advances are initially recognized at fair value, recorded as foreclosed properties and are held for sale. The allowance is subsequently estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of Bank of Mongolia and Ministry of Finance. Such model classifies the Bank's foreclosed properties based on time characteristics and makes allowances at the rates of 1%, 5%, 25%, 50% and 100% based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. During the year, foreclosed properties amounting to nil (2008: MNT 175,160,000) was written off against impairment losses.

**12. Other assets**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Precious metals	806,627	113,554
Accrued interest receivables	5,139,452	5,334,766
Prepayments	3,738,011	3,523,326
Inventory supplies	356,418	448,996
Other receivables	4,684,292	2,861,841
	<b>14,724,800</b>	<b>12,282,483</b>

Other receivables are presented net of impairment losses amounting to MNT 897,540,969 and MNT 886,062,667 as of 31 December 2009 and 2008, respectively.

The Bank entered into the "Share Purchase and Sale Agreement" with the shareholder of the Ulaanbaatar City Bank (UB City Bank) on 9 April 2008 where the Bank agreed to acquire 10 percent (800 shares) of total share of UB City Bank for USD 3 million (MNT 3,502,950). The Bank remitted USD 3 million in 2008 but the shares have not been transferred to the Bank yet due to the delay of approval by Bank of Mongolia.

**13. Deposits from customers**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Current accounts	240,142,168	150,463,490
Savings deposits	74,641,716	58,023,497
Time deposits	259,901,760	158,576,744
Other deposits	4,837,134	7,406,343
	<b>579,522,778</b>	<b>374,470,074</b>

Current accounts and other deposits generally bear no interest. However, for depositors maintaining current account balances above a prescribed limit, interest is provided at rates of approximately 1.0% and 3.0% (2008: 1.0% and 3.0%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 2.4% and 6.0% (2008: 2.4% and 6.0%), respectively.

Foreign currency and local currency time deposits bear interest at a rate of approximately 7.2% and 14.5% (2008: 7.0% and 14.6%), respectively.

**14. Deposits and placements of banks and other financial institutions**

	2009 MNT'000	2008 MNT'000
Current accounts deposits:		
Foreign currency deposits	3,671,770	14,229,673
Local currency deposits	341,673	12,111
Foreign currency cheques for selling	41,838	49,392
Deposits from banks	27,413,960	19,186,540
	31,469,241	33,477,716

**15. Borrowings**

	2009 MNT'000	2008 MNT'000
Kreditanstalt fuer Wiederaufbau ("KfW")	2,156,584	819,786
World Bank	6,611,363	4,697,008
Asian Development Bank ("ADB")	141,956	130,375
International Development Association ("IDA")	810,497	727,217
Export-Import Bank of Korea ("KEXIM")	651,908	2,456,275
Sumitomo Mitsui Banking Corporation ("SMBC")	-	253,193
VTB Bank Austria ("VTB")	6,492,780	6,337,550
Export-Import Bank of the Republic of China ("EXIM")	62,523	25,350
Japan Bank for International Cooperation ("JBIC")	1,043,462	589,826
Bank of Mongolia ("BOM")	-	43,000,000
MG Leasing corporation	3,217,533	-
Atlantic bank	2,524,970	-
Russian Agriculture Bank	21,722,839	-
SME project fund MoF	2,736,000	-
Mongolian Mortgage Corporation ("MMC")	5,129,578	-
	53,301,993	59,036,580

**Kreditanstalt fuer Wiederaufbau ("KfW")**

The KfW loan amounting to EUR 1,041,154 (2008: EUR 458,814) is obtained via Bank of Mongolia for the purpose of providing financing to various customers at preferential interest rates. The interest rate is fixed at an annual rate of 1.25%, of which 0.75% is payable to KfW and 0.50% to Bank of Mongolia. Principal repayment is on a semi-annual basis and the repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.



**World Bank**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Loan I	335,674	530,640
Loan II	6,275,689	4,166,368
	6,611,363	4,697,008

**Loan I**

Loan I comprises the following loans:

- (a) The World Bank USD loan amounting to USD 95,000 (2008: USD 241,000) is obtained via the Ministry of Finance. The loan is channelled to various borrowers under the Private Sector Development Credit Programme. The loan bears interest at a rate of LIBOR 6 months USD rate + 3% per annum (2008: LIBOR 6 months USD rate + 3% per annum). The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.
- (b) The World Bank Training Program loan amounting to USD 137,648 (2008: USD 177,648) is obtained via the Ministry of Finance in 2003 for the purpose of financing the Bank's implementation of institutional development programme, including credit management system renewal, staff training, provision of equipment and consultants' services. The loan bears interest at a fixed rate of 2% per annum (2008: 2% per annum). The loan is repayable semi-annually until final repayment due in December 2024.

**Loan II**

Loan II comprises the following loans:-

- (a) The World Bank USD loan amounting to USD 2,882,780 (2008: USD 2,584,600) is obtained via the Ministry of Finance. This is to finance specific investment projects through the provision of sub-loans. The loan bears interest at a rate of LIBOR 6 months USD rate + 1% per annum (2008: LIBOR 6 months USD rate + 1% per annum). The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.
- (b) The World Bank MNT loan amounting to MNT 2,014.5 million (2008: MNT 832 million) is obtained via the Ministry of Finance. This is to finance specific investment projects through the provision of sub-loans. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by Bank of Mongolia for the preceding twelve months.
- (c) The World Bank Training Program loan amounting to USD 70,555 (2008: USD 46,044) is obtained via the Ministry of Finance for the purpose of financing the Bank's implementation of institutional development programme, for staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in May 2025.

**Asian Development Bank ("ADB")**

The ADB loan amounting to USD 98,387 (2008: USD 102,859) is obtained via Bank of Mongolia for accounting information system upgrading purpose. The loan bears interest at a rate of 1% per annum (2008: 1% per annum) and is repayable in 30 annual instalments which commenced from year 2002.

**International Development Association ("IDA")**

The IDA loan amounting to USD 561,737 (2008: USD 573,737) is to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), where NBR had transferred operational knowledge and technical skills to the Bank. The loan bears interest at a rate of 1% per annum (2008: 1% per annum). Principal repayments commenced in August 2007 with the final repayment due in February 2037.

**Export-Import Bank of Korea ("KEXIM")**

The KEXIM loan amounting to USD 451,823 (2008: USD 1,937,874) was entered into for relending purposes to finance customers who purchase goods from Korean exporters. The line of credit is limited to an aggregate amount of USD 5 million and the interest of this particular loan varies with each drawdown, which is determined by KEXIM. The Bank shall repay KEXIM the principal amount of each disbursement on the last day of each financing period. This line of credit is available until May 2010 and currently in the process of further extension.

**Sumitomo Mitsui Banking Corporation ("SMBC")**

The loan from SMBC is to lend to a borrower for the purpose of financing the purchase of machineries. This loan is backed by a guarantee from International Finance Corporation ("IFC") under its Global Trade and Finance Program which is a program initiated to assist banks in emerging markets by issuing guarantees on the loans entered into by those banks. The guarantee facility from IFC is up to USD 5 million. The loan bears interest at a rate of LIBOR 6 months + 3.5% per annum (2008: LIBOR 6 months + 3.5% per annum). The balance of the loan was nil and USD 200,000 at 31 December 2009 and 2008, respectively.

**VTB Bank (Austria) AG ("VTB")**

	2009 MNT'000	2008 MNT'000
Risk Participation I	-	2,535,020
Risk Participation II	-	3,802,530
Risk Participation III	6,492,780	-
	6,492,780	6,337,550

The Bank and VTB had entered into participation agreements in which the VTB loans were extended to other borrowers. Under these participation agreements, VTB is at its sole risk and have no right of recourse against the Bank for any loss it incurs as a result of default by the borrower. The loans bear interest at rates ranging from 9% to 12% per annum.

**Export-Import Bank of China ("EXIM")**

The EXIM loan amounting to USD 43,333 (2008: USD 20,000) was entered into for relending purposes to finance customers who purchase machinery and other manufactured goods produced in the Republic of China. The line of credit is limited to an aggregate amount of USD 2 million. This particular loan bears interest at a rate of LIBOR 6 months USD rate + 1.25% per annum and final repayment is due in April 2010. This line of credit was available until January 2010 but subsequent to year end, it was extended to January 2011. The credit line was increased to USD 4 million and the interest rate was reduced to LIBOR 6 months USD rate + 0.25% per annum.

### **Japan Bank for International Cooperation ("JBIC")**

The JBIC loan comprises the following loans:

- (a) The JBIC USD loan amounting to USD 30,400 (2008: USD 47,200) is obtained via the Ministry of Finance. The loan is channelled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development or Environmental Protection. The loan bears interest at a rate of LIBOR 6 months USD rate + 1% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.
- (b) The JBIC MNT loan amounting to MNT 999.6 million (2008: MNT 530 million) is obtained via the Ministry of Finance. The loan is channelled to various borrowers for the purpose of SME Development or Environmental Protection. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by Bank of Mongolia for the preceding 12 months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

### **Bank of Mongolia ("BOM")**

The loan obtained from Bank of Mongolia amounting to nil (2008: MNT 43 million) is to finance unfinished construction projects through the provision of sub-loans. The loan bears interest at a rate of 12% per annum and final repayment is due in May 2009 in one lump sum which was paid in full during the current year. At 31 December 2008, the Bank had pledged a portion of their performing loans and advances and balances with Bank of Mongolia and balances with other financial institutions to secure this loan.

### **MG Leasing Corporation ("MGLC")**

During 2009, the Bank obtained a loan amounting to USD 2.23 million from MG Leasing Corporation to finance fund to purchase commodity and expires on 30 June 2010.

### **Atlantic Forfaitierungs AG ("AF")**

During 2009, the Bank obtained a loan amounting to USD 1.75 million from Atlantic Forfaitierungs AG for the purpose of relending to customers participating in plantation support fund. The loan expires on 5 September 2011.

### **Russian Agriculture Bank ("RHSB")**

The credit line of USD 25 million was obtained by the Bank for the purpose of relending to customers. This credit facility bears varying interest rates of 10-12% and expires on 24 August 2012. At 31 December 2009, the Bank has utilised USD 15,055,612.

### **SME Project Fund MoF**

The Bank obtained a line of credit from Ministry of Food, Agriculture and Light industry for the purpose of SME development with a limit of MNT 2,880 million. This credit facility bears interest rate of 9.6% per annum with varying repayment dates depending on the loans. Expiration date of this credit facility is 12 June 2014 and the Bank has utilised MNT 2,736 million as at 31 December 2009.

**Mongolian Mortgage Corporation ("MMC")**

The Bank transferred certain mortgage portfolios to Mongolian Mortgage Corporation in 2008 and 2009 on a recourse basis and determined that the transfer does not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to MMC. Accordingly, the Bank accounted for these transactions as collateralized financing. See note 6 for the details of the transactions.

**16. Debt securities issued**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Debt securities issued, at amortized cost	59,639,556	94,457,535

On 5 January 2007, the Bank launched a Euro Medium Term Note ("EMTN") Programme of which USD 75,000,000 was issued on 22 January 2007 at a price of 98.176%. These bonds bear interest at 8.625% per annum payable semi-annually. The principal was due on 22 January 2010 and has been paid in full as scheduled.

**17. Other liabilities**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Accrued interest expense	13,546,305	14,137,108
Delay on clearing settlement	2,157,033	1,540,078
Other payables	1,879,390	2,654,254
Dividend payable	363,280	388,499
	17,946,008	18,719,939

**18. Subordinated borrowings**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Loan from Asian Development Bank ("ADB")	-	5,703,795
Loan from International Finance Corporation ("IFC")	-	4,436,285
	-	10,140,080

The objective of the loans from ADB and IFC is to strengthen the Bank's capital base, operational abilities and to assist the Bank to be a well managed commercial bank according to international best practices. The loans are utilised for new product development and new lending initiatives. The loans bear interest at rate of LIBOR +7% per annum. The loans were repaid in full on 15 December 2009.



**19. Share capital**

	<b>2009 Number of ordinary shares</b>	<b>2008 Number of ordinary shares</b>	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
At 1 January	3,305,057	3,305,057	6,610,113	6,610,113
Issued during the year	-	-	-	-
At 31 December	3,305,057	3,305,057	6,610,113	6,610,113

**20. Treasury shares**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
At 1 January	6,456,232	5,826,092
Purchase of treasury shares	-	630,140
At 31 December	6,456,232	6,456,232

In 2008, the Bank purchased 42,577 ordinary shares of its issued share capital from minority shareholders. The price paid for the shares bought back was MNT 14,800 per ordinary share. The share buyback transactions were financed by internally generated funds. As at 31 December 2008, the total number of shares bought back were 314,577 ordinary shares of MNT 2,000 each which are being held as treasury shares. There were no treasury shares repurchased by the Bank during 2009.

Pursuant to an agreement dated 18 January 2007 between the Bank and its ultimate holding company. US Global has the option to repurchase 272,000 shares at a future date at a price to be agreed upon taking into account the net worth of the bank then. This option expired on 30 June 2009 without being exercised.

**21. Interest income**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Loans and advances	66,154,635	64,510,133
Investment securities	5,823,798	1,948,190
Deposits and placements with banks and other	4,841,249	4,377,823
Sale and repurchase agreements	8,269	56,754
Subordinated loan	485,607	325,332
	<b>77,313,558</b>	<b>71,218,232</b>

**22. Interest expense**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Deposits from customers	30,226,102	21,427,928
Loans from financial institutions	5,445,728	3,026,767
Subordinated borrowings	971,599	1,033,800
Sale and repurchase agreements	346,723	128,155
Debt securities issued	8,753,213	8,029,725
	45,743,365	33,646,375

**23. Net fee and commission Income**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Fee and commission income	7,045,151	7,686,241
Fee and commission expenses	(990,709)	(696,790)
	6,054,442	6,989,451

Net fee and commission income includes commission on letters of credit and guarantee, money transfer service charges, credit card service fees and charges, current account withdrawal charges, and etc.

**24. Other operating income (expense)**

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Foreign exchange gain, net	5,907,730	5,155,461
Precious metal trading (loss)/gain	55,657	(9,042,787)
Trading loss	(78)	(3,310,104)
Rental income	1,383	680
Other operating income	90,298	231,885
	6,054,990	(6,964,865)

**25. Operating expenses**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Staff costs	6,891,687	6,523,503
Technical assistance and foreign bank remittance fees	1,798,543	1,502,842
Depreciation on property and equipment (note 8)	1,575,531	1,423,519
Amortisation on intangible assets (note 9)	429,050	333,801
Write off for property and equipment	2,630	10,253
Professional fees	505,464	967,822
Insurance	204,978	322,717
Advertising and PR	738,955	831,598
(Gain)/loss on disposal of property and equipment	-	(444)
Maintenance of property and equipment	161,410	110,393
Rental expenses	841,154	554,237
Other operating expenses	4,533,599	3,284,347
	<b>17,683,001</b>	<b>15,864,588</b>

Included in other operating expenses are costs incurred for trainings, traveling, utilities, security, IT maintenance, repairs and maintenance, transportation and other miscellaneous administrative expenses.

**26. (Allowance)/writeback for impairment losses**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
(Allowance)/write back for loan losses, net	(8,132,695)	(1,731,108)
(Allowance)/write back for other assets, net	(293,594)	(86,622)
	<b>(8,426,289)</b>	<b>(1,817,730)</b>

**27. Corporate income tax****Recognised in the income statement:**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Income tax expense – current year	2,598,784	3,554,490
Income tax expense – prior year	-	24,980
	<b>2,598,784</b>	<b>3,579,470</b>

**Reconciliation of effective tax expense:**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Profit before tax	17,570,335	19,914,125
Tax at income tax rate of 25%	4,392,584	4,978,531
Tax effect of non-deductible expense	320,445	56,999
Tax effect of non-taxable income	(1,664,245)	(1,031,040)
Tax effect of progressive tax rate of 10% on the portion of taxable profits up to MNT 3 billion	(450,000)	(450,000)
Under provision in prior years	-	24,980
Income tax expense	2,598,784	3,579,470

According to Mongolian Tax Laws, the Bank has an obligation to pay the Government Income Tax at the rate of 10% of the portion of taxable profit up to MNT 3 billion and 25% of the portion of taxable profits above MNT 3 billion.

**28. Dividends**

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Dividends of equity holders	16,328,021	16,387,831

On 1 May 2009, the Bank declared a dividend of MNT 5,460 per ordinary share amounting to MNT 16,328,021 thousand tugrugs.

**29. Segment reporting**

Segment information is presented in respect of the Bank's business segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Business segments pay to and receive interest from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

**Business segments**

The Bank comprises the following main business segments:

- Corporate Banking  
Includes loans, deposits and other transactions and balances with corporate customers.
- SME Banking  
Includes loans, deposits and other transactions and balances with SME customers. The Bank classifies a business customer as SME where the level of financing it provides to a customer is between USD \$100,000 to USD \$500,000 rather than the classification on the size or turnover of the business itself.



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- **Retail Banking**  
Includes loans, deposits and other transactions and balances with retail customers and card customers.
- **Investment and International Banking**  
Includes the Bank's trading and corporate finance activities.
- **Treasury**  
Undertakes the Bank's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities. Operates the Bank's funds management activities.
- **Others**  
Includes Headquarter operations and central Shared Services operation that manages the Bank's premises and certain corporate costs.

In MNT'000

<b>As at 31 December 2009</b>	<b>Corporate Banking</b>	<b>SME Banking</b>	<b>Retail Banking</b>	<b>Investment and International Banking</b>	<b>Treasury</b>	<b>Other</b>	<b>Total</b>
Segment result							
External revenue							
Net interest income	52,143,403	3,370,180	(14,490,015)	(8,455,309)	1,240,174	(2,238,240)	31,570,193
Net fee and commission income	1,485,854	92,795	4,012,028	7,451	195,653	260,661	6,054,442
Other operating income (expense)	296,371	12,075	5,926,996	843	(1,213,870)	1,032,575	6,054,990
Intersegment revenue	(29,816,381)	(2,039,576)	25,767,972	8,239,750	(4,888,689)	2,736,924	-
Total segment revenue	24,109,247	1,435,474	21,216,981	(207,265)	(4,666,732)	1,791,920	43,679,625
Operating expense	(358,134)	(153,275)	(5,422,376)	(1,275,056)	(512,669)	(9,961,491)	(17,683,001)
(Allowance) reversal for impairment losses	(5,859,886)	(1,543,246)	(963,894)	-	-	(59,263)	(8,426,289)
Profit before tax	17,891,227	(261,047)	14,830,711	(1,482,321)	(5,179,401)	(8,228,834)	17,570,335
Income tax expense							(2,598,784)
Profit for the period							14,971,551
Segment assets	344,406,517	15,290,191	69,646,533	1,083,675	273,095,305	106,841,891	810,364,112
Segment liabilities	326,515,292	15,551,237	49,655,194	2,565,995	278,274,705	69,317,153	741,879,576
Unallocated liabilities							1,343,586
Total liabilities							743,223,162
Depreciation and amortization	(3,102)	(1,311)	(2,187)	(3,492)	(10,822)	(1,983,667)	(2,004,581)
Capital expenditure	-	95	829,645	1,960	3,581	1,279,930	2,115,211

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In MNT'000

As at 31 December 2008	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment result							
External revenue							
Net interest income	44,460,678	5,569,052	(7,164,904)	(6,582,343)	2,461,357	(1,171,983)	37,571,857
Net fee and commission income	2,162,895	74,269	4,148,470	11,620	345,073	247,124	6,989,451
Other operating income (expense)	141	1,226	81,449	(3,310,104)	(3,883,998)	146,421	(6,964,865)
Intersegment revenue	(26,521,311)	(2,238,190)	16,681,326	7,072,044	(2,431,774)	7,437,905	-
Total segment revenue	20,102,403	3,406,357	13,746,341	(2,808,783)	(3,509,342)	6,659,467	37,596,443
Operating expense							
(Allowance) reversal for impairment losses	(2,065,410)	192,653	123,410	-	-	(68,383)	(1,817,730)
Profit before tax	17,743,350	3,453,628	8,934,456	(4,154,321)	(3,931,121)	(2,131,867)	19,914,125
Income tax expense							(3,579,470)
Profit for the period							16,334,655
Segment assets							
Segment liabilities	314,158,685	18,709,679	90,314,863	16,892,537	124,159,404	26,066,756	590,301,924
Unallocated liabilities							476,004
Total liabilities							590,777,928
Depreciation and amortization							
Capital expenditure	2,720	402	1,513,876	3,274	157	1,633,236	3,153,665

### 30. Significant transactions with related parties

The holding company of the Bank is Globull Investment and Development (SCA), incorporated in Luxembourg and its ultimate holding company is US Global Investment LLC, incorporated in the United States of America. US Global Investment LLC is a consortium owned by Ulaanbaatar City Bank, Capitron Bank, Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Bank).

The Bank also has a related party relationship with its executive officers.

During the year, the Bank had the following transactions with related parties and outstanding balances at year end:

	2009 MNT'000	2008 MNT'000
<b>Ulaanbaatar City Bank</b>		
During the year ended 31 December		
Interest income	4,856,928	3,522,366
Interest expense	(61,872)	(12,528)
<b>As at 31 December</b>		
Deposit placed at banks	30,763,785	43,628,667
Deposit from banks	890,915	228,746
Subordinated loans	4,000,000	4,000,000
<b>Capitron Bank</b>		
<b>During the year ended 31 December</b>		
Interest income	1,258,192	695,302
Interest expense	(6,793)	(11,849)
<b>As at 31 December</b>		
Deposit placed at banks	2,885,680	7,302,530
Deposit from banks	110,366	42,616
Subordinated borrowings	3,000,000	-
Reverse repurchase agreements	800,000	-
<b>Executive officers</b>		
<b>During the year ended 31 December</b>		
Interest income	59,981	65,871
<b>As at 31 December</b>		
Loans to executive officers	628,890	690,800

The loans to executive officers are included in loans and advances of the Bank (see Note 6).

Total remuneration and employees benefit paid to the executive officers for the year amounted to MNT 1,303,391 (2008: MNT 1,158,575).

## 31. Financial risk management

### (a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO") and Credit Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Representative Governing Board ("RGB") is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The RGB is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RGB.

### (b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances and investment securities.

### Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. Each branch is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches and credit processes are undertaken by Internal Audit.

An analysis of the net amounts of loan and the allowances for loan loss at the reporting date was shown below.



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In MNT'000

	<b>2009 Number of ordinary shares</b>	<b>2008 Number of ordinary shares</b>	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
Carrying amount	406,214,658	440,259,284	90,300,363	38,816,493
Neither past due nor impaired	380,003,204	433,832,244	-	-
Individually impaired			-	-
In arrears	18,841,831	6,252,993	-	-
Non-qualitative loans:				
a) Substandard	1,407,122	745,277	-	-
b) Doubtful	14,512,828	158,856	-	-
c) Loss	6,572,275	6,254,193	-	-
Gross amount	421,337,260	447,243,563	-	-
Allowance for loan loss	(15,122,602)	(6,984,279)	-	-
Net carrying amount	406,214,658	440,259,284	90,300,363	38,816,493

## Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Set out below is an analysis of the gross and net (after allowances for loan loss) amounts of individually impaired assets by classifications.

	<b>2009 MNT'000</b>			<b>2008 MNT'000</b>		
	Gross	Net	Fair value of collateral	Gross	Net	Fair value of collateral
In arrears						
Substandard	18,841,831	17,899,699	20,976,885	6,252,993	5,940,160	14,281,500
Doubtful	1,407,122	1,055,341	5,301,999	745,277	447,166	2,929,578
Loss	14,512,828	7,256,414	24,959,200	158,856	39,714	368,625
	6,572,275	-	17,314,194	6,254,193	-	7,569,187
	41,334,056	26,211,454	68,552,278	13,411,319	6,427,040	25,148,890

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks and investment securities.

Some of the adverse economic conditions Mongolia has experienced in the past two years continue to persist, despite recent positive developments in the country's trade balance and increased investment inflows, and may continue to have an adverse effect on the Bank's debtors. The ultimate collectability of the loans is subject

**Notes to Financial Statements, continued**

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to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Mongolian economy and the potential continuation of the adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Bank's financial statements.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	<b>2009</b> <b>MNT'000</b>	<b>2008</b> <b>MNT'000</b>
Agriculture	22,251,737	7,450,527
Mining and quarrying	62,751,263	47,644,670
Manufacturing	98,839,017	130,870,876
Petrol import and trade	17,882,104	26,322,379
Corporate-trading	52,082,932	55,754,292
Construction	90,892,424	94,417,089
Electricity and thermal energy	94,466	271,020
Hotel, restaurant and tourism	2,248,846	2,243,239
Financial services	257,728	699,415
Transportation	1,671,414	6,020,201
Health	3,765,036	2,945,601
Education	1,038,783	1,428,530
Mortgage	30,449,897	31,139,003
Payment card	10,840,582	11,008,253
Saving collateralized	3,370,184	5,375,384
Others	7,778,245	16,668,805
Total	406,214,658	440,259,284

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20 percent of the capital of the Bank. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5 percent of the capital of the bank, and the their total amount shall not exceed 20 percent of the capital of the Bank respectively. The criteria for concentration of loan as at 31 December 2009 are as follows:

Description	Suitable ratios	31 Dec 2009	Differences
The loan and guarantee given to one borrower	<Eq 20%	21.15%	1.15%*
The loan and guarantee given to the single related party	<Eq 5%	0.20%	-
Total loans and guarantees given to the related parties	<Eq 20%	4.55%	-

\* The loan balance decreased in February 2010 and the Bank complied with the 20% ratio.

**(c) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's Assets and Liabilities Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers/banks. For this purpose net liquid assets are considered as including cash and cash equivalents, central bank bills, current accounts and deposits placed with Bank of Mongolia and other domestic and foreign banks less clearing delay. A similar calculation is used to measure the Bank's compliance with the minimum 18% liquidity ratio established by Bank of Mongolia. Details of the reported Bank ratio of net liquid assets to deposits from customers/banks at the reporting date were as follows:

	2009	2008
At 31 December	47%	37%

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The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment:

In MNT'000

As at 31 December 2009	Less than three months	Three to six months	Six months to one year	One to five years	Over five Years	Total
<b>Financial assets</b>						
Cash on hand	24,215,992	-	-	-	-	24,215,992
Deposits and placements with banks and other financial institutions	38,414,833	3,344,990	21,301,828	-	-	63,061,651
Balances with Bank of Mongolia	57,065,717	-	-	-	-	57,065,717
Deposits with Bank of Mongolia	122,641,400	-	-	-	-	122,641,400
Investment securities	84,190,544	-	-	326,144	5,783,675	90,300,363
Reversed repurchase agreement	799,556	-	-	-	-	799,556
Loans and advances	26,406,983	39,992,447	141,957,612	168,364,342	29,493,274	406,214,658
Subordinated loans	-	-	-	7,000,000	-	7,000,000
Other assets	14,724,800	-	-	-	-	14,724,800
	368,459,825	43,337,437	163,259,440	175,690,486	35,276,949	786,024,137
<b>Financial liabilities</b>						
Deposits from customers	264,631,490	151,149,557	105,908,896	57,832,835	-	579,522,778
Deposits and placement of bank and other financial Institutions	4,055,281	-	27,413,960	-	-	31,469,241
Borrowings	2,606,596	1,163,648	16,383,078	24,614,190	8,534,481	53,301,993
Subordinated borrowings	-	-	-	-	-	-
Debt securities issued	59,639,556	-	-	-	-	59,639,556
Other liabilities	17,946,008	-	-	-	-	17,946,008
	348,878,931	152,313,205	149,705,934	82,447,025	8,534,481	741,879,576
Net financial assets/ (liabilities)	19,580,894	(108,975,768)	13,553,506	93,243,461	26,742,468	44,144,561

**Notes to Financial Statements, continued**

December 31, 2009 and 2008

In MNT'000

<b>As at 31 December 2008</b>	<b>Less than three months</b>	<b>Three to six months</b>	<b>Six months To one year</b>	<b>One to five years</b>	<b>Over five years</b>	<b>Total</b>
<b>Financial assets</b>						
Cash on hand	24,308,267	-	-	-	-	24,308,267
Deposits and placements with banks and other financial institutions	71,935,539	9,101,718	-	-	-	81,037,257
Balances with Bank of Mongolia	16,452,838	-	-	-	-	16,452,838
Deposits with Bank of Mongolia	19,013,178	-	-	-	-	19,013,178
Investment securities	26,543,050	10,929,418	-	260,350	1,083,675	38,816,493
Loans and advances	49,095,353	64,542,971	110,936,027	176,201,656	39,483,277	440,259,284
Subordinated loans	-	-	-	4,000,000	-	4,000,000
Other assets	12,282,483	-	-	-	-	12,282,483
	219,630,708	84,574,107	110,936,027	180,462,006	40,566,952	636,169,800
<b>Financial liabilities</b>						
Deposits from customers	136,219,483	87,774,499	65,769,822	84,706,270	-	374,470,074
Deposits and placement of bank and other financial institutions	8,285,936	9,024,944	10,112,135	6,054,701	-	33,477,716
Borrowings	7,737,035	42,968,603	-	8,330,942	-	59,036,580
Subordinated borrowings	-	-	10,140,080	-	-	10,140,080
Debt securities issued	-	-	-	94,457,535	-	94,457,535
Other liabilities	18,719,939	-	-	-	-	18,719,939
	170,962,393	139,768,046	86,022,037	193,549,448	-	590,301,924
Net financial assets/(liabilities)	48,668,315	(55,193,939)	24,913,990	(13,087,442)	40,566,952	45,867,876



**(d) Market risks**

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

Overall authority for market risk is vested with the ALCO.

Exposure to interest rate risks

The principal risk to which the Bank's financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Bank's interest rate gap position on its financial assets and liabilities are as follows:

**As at 31 December 2009**

In MNT'000

	Effective Interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
<b>Financial assets</b>								
Cash on hand	-	24,215,992	24,215,992	-	-	-	-	-
Deposits and placements with banks and other financial institutions	7.56	63,061,651	-	38,414,833	3,344,990	21,301,828	-	-
Balances with Bank of Mongolia	-	57,065,717	57,065,717	-	-	-	-	-
Deposits with Bank of Mongolia	0.11	122,641,400	-	122,641,400	-	-	-	-
Investment securities	10.42	90,300,363	-	84,190,544	-	-	326,144	5,783,675
Reversed repurchase agreement	5	799,556	-	799,556	-	-	-	-
Loans and advances	15.96	406,214,658	-	26,406,983	39,992,447	141,957,612	168,364,342	29,493,274
Subordinated loan	11	7,000,000	-	-	-	-	7,000,000	-
Other assets	-	14,724,800	14,724,800	=	=	=	=	=
		786,024,137	96,006,509	272,453,316	43,337,437	163,259,440	175,690,486	35,276,949
<b>Financial liabilities</b>								
Deposits from customers	6.77	579,522,778	-	264,631,490	151,149,557	105,908,896	57,832,835	-
Deposits and placements of banks and other financial institutions	5.5	31,469,241	4,055,281	-	27,413,960	-	-	-
Loans from foreign financial institutions	7	53,301,993	-	2,606,596	1,163,648	16,383,078	24,614,190	8,534,481
Debt securities issued	8.63	59,639,556	59,639,556	-	-	-	-	-
Other liabilities	-	17,946,008	17,946,008	=	=	=	=	=
		741,879,576	81,640,845	267,238,086	179,727,165	122,291,974	82,447,025	8,534,481
Net financial assets/(liabilities)		44,144,561	14,365,664	5,215,230	(136,389,728)	40,967,466	93,243,461	26,742,468

## As at 31 December 2008

In MNT'000

	Effective interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
<b>Financial assets</b>								
Cash on hand	-	24,308,267	24,308,267	-	-	-	-	-
Deposits and placements with bank and other financial institutions	7.78	81,037,257	-	71,935,539	9,101,718	-	-	-
Balances with Bank of Mongolia	-	16,452,838	16,452,838	-	-	-	-	-
Deposits with Bank of Mongolia	1	19,013,178	-	19,013,178	-	-	-	-
Investment securities	11.63	38,816,493	-	26,543,050	10,929,418	-	260,350	1,083,675
Loans and advances	14	440,259,284	-	49,095,353	64,542,971	110,936,027	176,201,656	39,483,277
Subordinated loans	8	4,000,000	-	-	-	-	4,000,000	-
Other assets	-	12,282,483	12,282,483	-	-	-	-	-
		636,169,800	53,043,588	166,587,120	84,574,107	110,936,027	180,462,006	40,566,952
<b>Financial liabilities</b>								
Deposits from customers	5.92	374,470,074	-	136,219,483	87,774,499	65,769,822	84,706,270	-
Deposits and placements of banks and other financial institutions	8.8	33,477,716	4,054,765	4,231,172	9,024,944	10,112,135	6,054,700	-
Borrowings	8.64	59,036,580	-	7,737,035	42,968,603	-	8,330,942	-
Subordinated borrowings	11.1	10,140,080	-	-	-	10,140,080	-	-
Debt securities issued	8.63	94,457,535	-	-	-	-	94,457,535	-
Other liabilities	-	18,719,939	18,719,939	-	-	-	-	-
		590,301,924	22,774,704	148,187,690	139,768,046	86,022,037	193,549,442	-
Net financial assets/(liabilities)		45,867,876	30,268,884	18,399,430	(55,193,939)	24,913,990	(13,087,441)	40,566,922

In MNT'000

	MNT denominated	2009 Foreign currencies	Total	MNT denominated	2008 Foreign currencies	Total
<b>Financial assets</b>						
Cash and hand	12,008,644	12,207,348	24,215,992	13,331,478	10,976,789	24,308,267
Deposits and placements with banks and other financial instruments	16,600,000	46,461,651	63,061,651	18,649,912	62,387,345	81,037,257
Balances with the Bank of Mongolia	37,298,773	142,408,344	179,707,117	9,579,970	25,886,046	35,466,016
Investment securities	90,300,363	-	90,300,363	38,816,493	-	38,816,493
Reversed repurchase agreement	799,556	-	799,556	-	-	-
Loan and advances	178,840,854	227,373,804	406,214,658	195,561,525	244,697,759	440,259,284
Subordinated loans	7,000,000	-	7,000,000	4,000,000	-	4,000,000
Other assets	10,955,425	3,769,375	14,724,800	7,565,446	4,717,037	12,282,483
	353,803,615	432,220,522	786,024,137	287,504,824	348,664,976	636,169,800
<b>Financial liabilities</b>						
Deposits from customers	287,845,392	291,677,386	579,522,778	174,372,039	200,098,035	374,470,074
Deposits and placement of bank and other financial institutions	359,205	31,110,036	31,469,241	9,903,173	23,574,544	33,477,717
Borrowings	10,879,678	42,422,315	53,301,993	44,362,000	14,674,580	59,036,580
Subordinated borrowings	-	-	-	-	10,140,080	10,140,080
Debt securities issued	-	59,639,556	59,639,556	-	94,457,535	94,457,535
Other liabilities	8,698,229	9,247,779	17,946,008	11,652,009	7,067,929	18,719,938
	307,782,504	434,097,072	741,879,576	240,289,221	350,012,703	590,301,924
Net financial assets/(liabilities)	46,021,111	(1,876,550)	44,144,561	47,215,603	(1,347,727)	45,867,876

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank's sensitivity to a 100 basis point (bp) increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
2009 At 31 December	339,159	(339,159)
2008 At 31 December	175,730	(175,730)

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total. These limits also comply with the minimum requirements of Bank of Mongolia.

A 10 percent strengthening of the MNT against the USD at 31 December would have increased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	<b>10 percent strengthening MNT'000</b>
2009 At 31 December	187,655
2008 At 31 December	134,773

At 10 percent weakening of the MNT against the USD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all over variables remain constant.

### **(e) Capital Management**

The Bank's regulator, Bank of Mongolia, sets and monitors capital requirements for the Bank as a whole.

The Bank of Mongolia requires the Bank to maintain a minimum capital adequacy ratio of 12%, complied on the basis of total capital and total assets as adjusted for their risk ("CAR") and a minimum of 6% complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year.



**Notes to Financial Statements, continued**

December 31, 2009 and 2008

The suitable ratios of the Bank's capital adequacy as at 31 December 2008 and 2009 were as following:

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
<b>Tier I Capital</b>		
Share capital	6,610,112	6,610,113
Share premium	7,392,191	7,392,191
Treasury shares	(6,456,232)	(6,456,232)
Retained earnings	45,911,554	47,268,024
Adjustment	(544,825)	(544,825)
	<b>52,912,800</b>	<b>54,269,271</b>
<b>Tier II Capital</b>		
Revaluation reserve	13,683,324	13,683,324
Subordinated borrowings	-	10,140,080
	<b>13,683,324</b>	<b>23,823,404</b>
<b>Total Tier I and Tier II capital</b>	<b>66,596,124</b>	<b>78,092,675</b>

Breakdown of risk weighted assets as follows:

	<b>2009 MNT'000</b>	<b>2008 MNT'000</b>
<b>Risk weighted factor (%)</b>		
20	12,001,746	14,985,862
35	1,645,000	-
50	30,115,985	30,803,634
100	456,190,828	479,014,817
Foreign currency exposure (*)	23,213,724	5,892,743
	<b>523,167,283</b>	<b>530,697,056</b>

**Capital ratios**

Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	12.73%	14.72%
Total tier I capital expressed as a percentage of risk weighted assets ("TCAR")	10.11%	10.23%

\* On 30 October 2008, the Bank's regulator, Bank of Mongolia, revised their capital adequacy prudential ratio calculation by ceasing the value-at-risk ("VaR") method and reverting to the traditional method for the calculation of foreign currency exposure as part of its risk weighted average assets.

## **32. Fair values of financial assets and liabilities**

### **Determination of fair value and fair value hierarchy**

Amendments to IFRS 7 Financial Instruments: Disclosures require enhanced fair value and liquidity disclosures. In accordance with amendments to IFRS 7, the Bank follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in measurement.

Level 1: Fair value is based on quoted prices in active markets for identical assets or liabilities

Level 2: The inputs used for fair value measurement are market observable inputs, either directly or indirectly.

Level 3: Valuation techniques are used to estimate fair value of which significant inputs are not based on observable market data.

No financial assets and liabilities of the Bank are measured at fair value and no fair value disclosures by level classifications are provided.

### **Fair value of financial assets and liabilities not carried at fair value**

The Bank determines fair values for those financial instruments which are not carried at fair value in the financial statements as follows:

#### **(i) Financial assets and liabilities for which fair value approximates carrying amount**

For financial assets and financial liabilities that are liquid or having short term maturity of less than one year, it is assumed that the carrying amounts approximate to their respective fair value. This assumption is also applicable to demand deposits, time deposits and variable rate financial instruments, which is principally due to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

#### **(ii) Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortized cost basis are estimated by comparing market interest rates when they were first recognized with the current market rates offered for the similar financial instruments available in Mongolia. For quoted debt issued, the fair values are measured based on quoted market prices and in case where observable market inputs are not available, a discounted cash flow model is employed.

## Notes to Financial Statements, continued

December 31, 2009 and 2008

	Note	Carrying amount 2009 MNT 000	Fair value 2009 MNT 000	Carrying amount 2008 MNT 000	Fair value 2008 MNT 000
<b>Financial assets</b>					
Cash on hand	4	24,215,992	24,215,992	24,308,267	24,308,267
Deposits and placements with banks	4	242,768,768	242,768,768	116,503,273	116,503,273
Investment securities	5	90,300,363	90,300,363	38,816,493	38,816,493
Loans and advances to customers	6	406,214,658	421,473,566	440,259,284	447,361,533
Reverse repurchase agreements	7	799,556	799,556	-	-
Subordinated loans	8	7,000,000	7,000,000	4,000,000	4,000,000
Other assets	12	14,724,800	12,282,483	12,282,483	12,282,483
		<u>786,024,137</u>	<u>798,840,728</u>	<u>636,169,800</u>	<u>643,272,049</u>
<b>Financial liabilities</b>					
Deposits from customers	13	579,522,778	570,583,337	374,470,074	360,006,016
Deposits and placements of banks and other financial institutions	14	31,469,241	31,469,241	33,477,716	33,477,716
Borrowings	15	53,301,993	53,301,993	59,036,580	59,036,580
Subordinated borrowings		-	-	10,140,080	10,140,080
Debt securities issued	16	59,639,556	59,639,556	94,457,535	94,457,535
Other liabilities	17	17,946,008	17,946,008	18,719,939	18,719,939
		<u>741,879,576</u>	<u>732,940,135</u>	<u>590,301,924</u>	<u>575,837,866</u>

### 33. Commitment and contingent liabilities

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of undrawn portions of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers third parties. These agreements have fixed limits and generally extend for a period of less than one year. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions. The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2009 MNT'000	2008 MNT'000
Letters of credit and guarantees	32,807,809	30,531,036
Loan and credit card commitments	30,276,702	28,540,414

**Notes to Financial Statements, continued**

December 31, 2009 and 2008

These commitments and contingent liabilities have off balance-sheet credit risk for which provisions are not currently made which is an allowed in practice by Bank of Mongolia. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Accordingly, the amounts do not represent expected future cash flows.

The Bank had one pending legal case as at 31 December 2009 for which the Bank is a plaintiff for the loss incurred for the identify theft case where the Bank's customer was a victim. The Bank paid for the loss incurred by its customer in the amount of MNT 10.2 million and is currently pursuing for any recovery of which amount cannot be reasonably estimated yet.

## CORRESPONDENT BANKS

	Bank Name	Location	Swift	Currency	Account No.
1	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	USD	05710114040000937
2	STANDARD CHARTERED BANK	NEW YORK, USA	SCBLUS33		3582023404001
3	CITIBANK N.A.,	NEW YORK, USA	CITIUS33		36202093
4	HSBC BANK USA N.A	NEW YORK, USA	MRMDUS33		000304298
5	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRU MM		001201442 USD 400202
6	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE		963-THR-287-01-1
7	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	ERLIANHAOTE, CHINA	PCBCCNBJNME		15014150509220100065
8	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111840718000000007
9	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111840900000000008
10	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	EUR	400878500801 EUR
11	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010		301-0104154-57-EUR
12	CREDIT SUISSE	ZURICH, SWITZERLAND	CRESCHZZ80A	CHF	0835-0993850-73-000
13	BANK OF TOKYO-MITSUBISHI UFJ LTD	TOKYO, JAPAN	BOTKJPJT	JPY	653-0439924
14	MIZUHO CORPORATE BANK LTD	TOKYO, JAPAN	MHCBJPJT		5793010
15	HSBC BANK PLC	LONDON, UNITED KINGDOM	MIDLGB22	GBP	00334567
16	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	KRW	0963 FRW 001000043
17	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	CNY	05710101040021997
18	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	ERLIANHAOTE, CHINA	PCBCCNBJNME		15001658408052501192
19	HSBC BANK AUSTRALIA LTD	SYDNEY, AUSTRALIA	HKBAAU2S	AUD	011-795630-041
20	HSBC BANK CANADA	TORONTO, CANADA	HKBCCATT	CAD	930135598060
21	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRU MM	RUB	001201442 RUR 400202
22	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111810918000000002
23	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111810800000000015
24	HONGKONG AND SHANGHAI BANKING CORPORATION LTD	AUCKLAND, NEW ZEALAND	HSBCNZ2A	NZD	040-013294-261
25	HANG SENG BANK LTD	HONG KONG	HASEHKHH	HKD	250-012796-001
26	OCBC BANK	SINGAPORE	OCBCSGSG	SGD	517-123360-001
27	NORDEA BANK AB	STOCKHOLM, SWEDEN	NDEASESS	SEK	39527705290 080502



## INTERNATIONAL RELATIONSHIPS

No.	Bank Name	Country	No.	Bank Name	Country
1	Absolut Bank		26	Credit Suisse	Switzerland
2	Agricultural Bank of China, China	China	27	Danske Bank AS	Sweden
3	Alliance Bank	Kazakhstan	28	Deutsche Bank AG	Germany
4	Asian Development Bank (ADB)	Philippines	29	DZ Bank AG	Germany
5	Asian-Pacific Bank	Russia	30	European Bank for Reconstruction and Development (EBRD)	United Kingdom
6	Atlantic Forfaitierungs AG	Switzerland	31	EXIM Bank	Hungary
7	Bank Austria Creditanstalt AG	Austria	32	Export-Import Bank of Korea	Korea
8	Bank CenterCredit		33	Export-Import Bank of the Republic of China	Taiwan
9	Bank of America	China	34	Gazprombank	Russia
10	Bank of Ceylon	Sri Lanka	35	Halyk Bank	Kazakhstan
11	Bank of China Ltd	China	36	Hana Bank	Korea
12	Bank of Communications Co. Ltd	China	37	Hang Seng Bank Ltd	Hong Kong
13	Bank of New York Mellon	USA	38	Hong Kong and Shanghai Banking Corporation Ltd	New Zealand
14	Bank of Tokyo-Mitsubishi UFJ Ltd	Japan	39	HSBC Bank Australia Ltd	Australia
15	Bank TuranAlem	Kazakhstan	40	HSBC Bank Canada	Canada
16	Barclays Capital	Singapore	41	HSBC Bank PLC	United Kingdom
17	BHF Bank	Germany	42	HSBC Bank USA	USA
18	BNP Paribas SA	France	43	ImpexBank	
19	Caspian Bank		44	Industrial and Commercial Bank of China Ltd	China
20	Center Credit Bank		45	ING Bank	Belgium
21	Ceskoslovenska obchodni banka, a. s.	Czech Republic	46	International Bank for Economic Cooperation (IBEC)	Russia
22	China Construction Bank Ltd, China	China	47	International Finance Corporation (IFC)	USA
23	China Export and Credit Insurance Corporation (Sinosure)	China	48	INTL Global Currencies Ltd	United Kingdom
24	Citibank N.A	USA	49	Japan Bank for International Cooperation (JBIC)	Japan
25	Commerzbank AG	Germany			

## INTERNATIONAL RELATIONSHIPS

No.	Bank Name	Country	No.	Bank Name	Country
50	JP Morgan Chase Bank NA	USA	68	Raiffeisen Zentralbank Oesterreich AG (RZB)	Austria
51	KBC Bank NV	Belgium	69	Russian Agricultural Bank	Russia
52	KfW Bankengruppe	Germany	70	Saxo Bank A/S	Denmark
53	Kookmin Bank	Korea	71	Sberbank	Russia
54	Korea Development Bank	Korea	72	Shinhan Bank	Korea
55	Korea Exchange bank	Korea	73	Sotsekonom Bank	Russia
56	LandesBank Berlin	Germany	74	Standard Bank	England
57	Man group	USA	75	Standard Chartered Bank	South Africa
58	MasterCard International Incorporated	USA	76	Sumitomo Mitsui Banking Corp.	Japan
59	MDM Bank	Russia	77	UBS AG	Switzerland
60	MIK	Hungary	78	Unicredit Bank	Russia
61	Mizuho Corporate Bank Ltd	Japan	79	Visa International	USA
62	Nadra Bank		80	VTB Bank	Russia
63	Natexis Banque Populaires	Singapore	81	VTB Bank Austria AG	Austria
64	Nordea Bank AB	Sweden	82	Wells Fargo Bank NA	USA
65	OCBC Bank	Singapore	83	Woori Bank	Korea
66	Petrocommerce bank		84	World Bank	USA
67	Rabobank	Singapore			



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