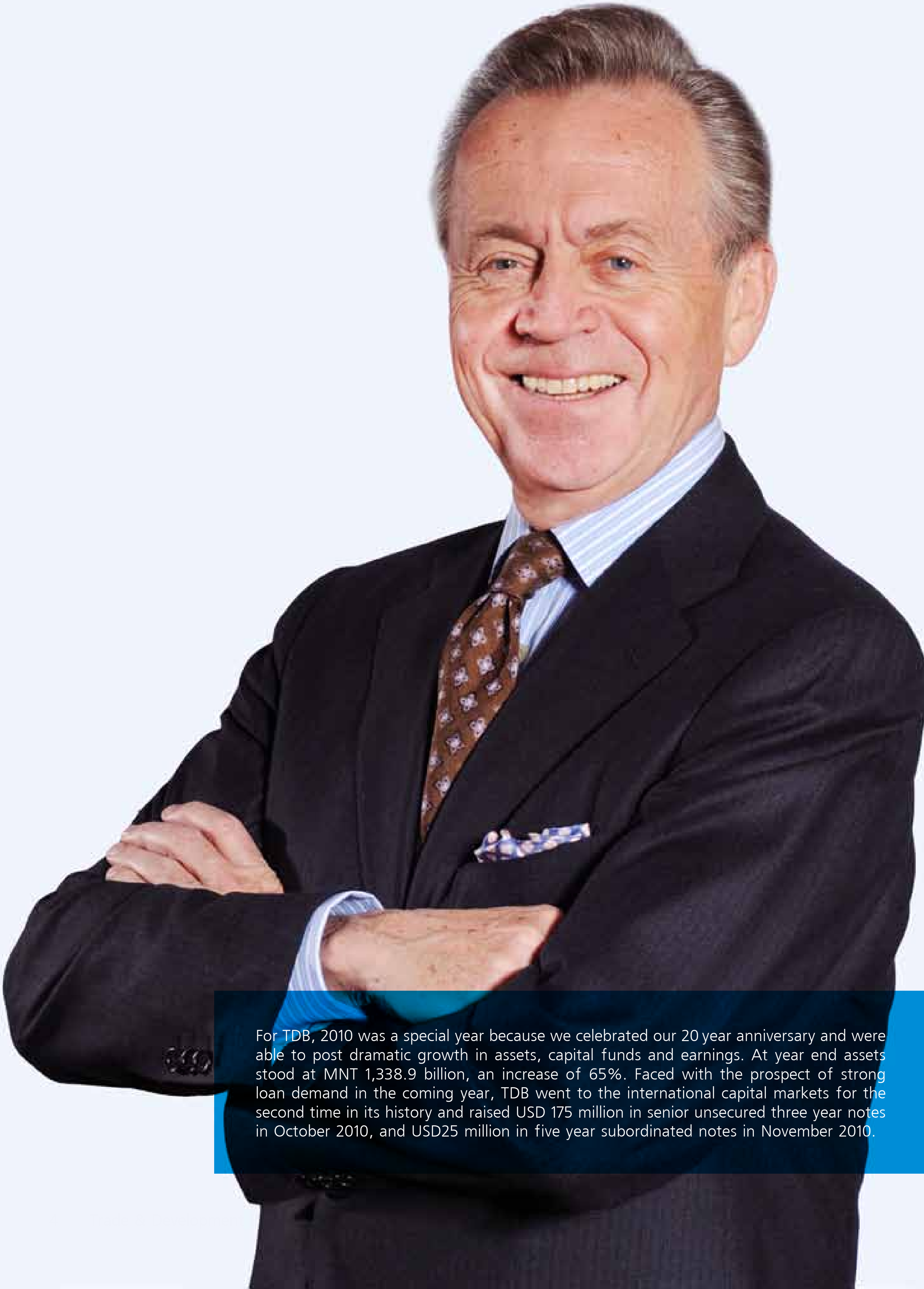
2010

Annual Report

TRADE & DEVELOPMENT BANK

CONTENTS



For TDB, 2010 was a special year because we celebrated our 20 year anniversary and were able to post dramatic growth in assets, capital funds and earnings. At year end assets stood at MNT 1,338.9 billion, an increase of 65%. Faced with the prospect of strong loan demand in the coming year, TDB went to the international capital markets for the second time in its history and raised USD 175 million in senior unsecured three year notes in October 2010, and USD25 million in five year subordinated notes in November 2010.

MESSAGE FROM THE PRESIDENT

Dear customers, partners and shareholders,

2010 marked the start of a recovery from the economic downturn of the previous two years. The signing of the Oyu Tolgoi agreement in late 2009, and the strong demand for coking coal and iron ore from China, spured a dramatic increase in trade and investment. The economy rebounded, recording an 8% growth in GDP after a contraction of 1,6% the previous year. The tugrug strengthened dramatically, and the money supply grew by 62%. There was a continued increase in liquidity in the banking system and loan growth resumed, recording a 23% increase among all banks.

For Trade and Development Bank of Mongolia (TDB), 2010 was a special year because we celebrated our 20 year anniversary and were able to post dramatic growth in assets, capital funds and earnings. At year end assets stood at MNT 1,338.9 billion, an increase of 65%. Net earnings of 20.7 billion represented a 38% increase from the previous year. The strong earnings, and the issuance of USD25 million in five year subordinated debt notes, helped capital funds surge 78% to MNT 119.5 billion. This resulted in the bank's capital adequacy ratio reaching 16.3% at year end.

Faced with the prospect of strong loan demand in the coming year, TDB went to the international capital markets for the second time in its history and raised USD 175 million in senior unsecured three year notes in October 2010, and USD25 million in five year subordinated notes in November 2010. The issues were well received among Asian and European investors and reflected TDB's good name in the market based on its continued strong financial performance as well as the successful repayment of its initial USD 75 million three year note issue in January 2010. To date TDB is the first and still only Mongolian entity which has been able to tap the publicly trade international debt markets.

Among our clients are most of the leading corporations of Mongolia as well as hundreds of small and medium-sized enterprises. Continued service to Mongolia's business has helped us maintain a leading share of over 25% of the corporate loan market. Recognizing the need to continue to serve our clients trade finance needs, we have worked hard during the past year to expand our relationships with major international banks. Industrial and Commercial Bank of Commerce, Boa Shan Bank, Pudong Development Bank, Canadian Imperial Bank of Commerce and Overseas Chinese Banking Corporation were added to our growing list of correspondents, and letter of credit confirmation lines from our correspondents grew to over USD 140 million. The result has been that TDB handled over 56 percent of Mongolia's trade related payments in 2010.

As Mongolia receives heightened interest from foreign investors, we recognize the responsibility to be able to advise and assist our clients to help them benefit from this trend. To this end, in late 2010, we have established TDB Capital, a wholly owned subsidiary of the bank, which will have the capability to provide underwriting, brokerage, advisory, asset management and other investment banking services. With the restructuring of the Mongolian Stock Exchange planned in 2011, and the success of Mongolian related firms on foreign stock exchanges, as well as the increased interest of the debt capital markets in Mongolia,there will be more financing options available to many Mongolian firms and TDB intends to serve our clients in finding the optimal funding solutions.

To further develop the name of TDB among foreign investors, build relationships with participants in the international capital markets and to help explain the investment opportunities in Mongolia TDB participated and provided sponsorship in investor conferences in Beijing, Hong Kong, London, Toronto and Vancouver, as well as in Ulaanbaatar.

2010 was indeed a year of accomplishment for Mongolia and for TDB. Of course, any success the bank has had is thanks to the business relationships developed and maintained with our clients, the dedicated efforts of our staff, and the support of our local and international partners. On behalf of my colleagues, a sincere “thank you” to all.

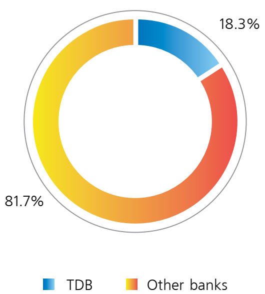
2011 promises to be a year of many new opportunities and I wish all the best as we continue to work together.

Randolph Koppa
President

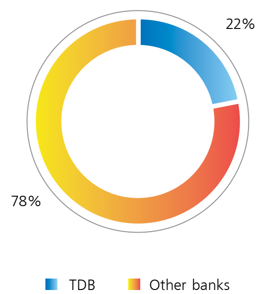
FINANCIAL HIGHLIGHTS

Financial Highlights 2009-2010		MNT billion
	2009	2010
Summary of Consolidated Income Statement		
Interest income	77.3	89.2
Net interest income	31.6	29.1
Operating income	43.7	45.3
Net profit	15.0	20.7
Profitability ratios		
ROE	22.30%	23.40%
ROA	1.90%	1.55%
Summary of Consolidated Balance Sheet		
Assets		
Cash and cash equivalents	267.0	553.5
Loans and advances	406.2	464.5
Other	137.2	320.9
Total assets	810.4	1,338.9
Liabilities		
Deposits from customers	579.5	919.9
Deposits due to banks	31.5	53.6
Loans from FIs	53.3	50.7
Other Liabilities	19.3	21.9
Bond	59.6	173.3
Subordinated loan	-	31.2
Total liabilities	743.22	1,250.6
Shareholders equity	67.2	88.3
Total liabilities and shareholders' equity	810.4	1,338.9
Prudential ratios		
Capital adequacy ratio (> 10%)	12.80%	16.30%
Liquidity ratio (>18%)	47.00%	66.80%
Foreign currency exposure (±<40%)	34.80%	5.40%
Related person Loans/Capital funds (<5%)	0.20%	0.15%

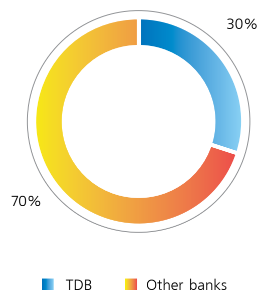
Total loans market share



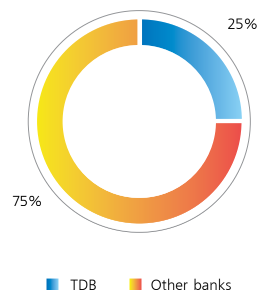
Total assets market share



Total profit market share



Total deposits market share



20th anniversary of TDB marked a terrific milestone in a fragile market and it was the year that we were responsible for sharing our knowledge and experience as the first Mongolian commercial bank with the next generation, for showing respect to our loyal customers, partners and report our success and achievement. As economic headwinds lingered, TDB's performances went up and we continued to grow our presence with new products and services, additional banking hours and the opening of new branches, ATMs.

MESSAGE FROM THE CEO

Dear customers, partners, co-workers and shareholders,

2010 marked the 20th anniversary of Trade and Development Bank of Mongolia (TDB) – a terrific milestone in a fragile market and it was the year that we were responsible for sharing our knowledge and experience as the first Mongolian commercial bank with the next generation, for showing respect to our loyal customers, partners and report our success and achievement. I have to stress that our 20 years history beginning in 1990 is full of success which made us known throughout the country and at an international level. This is the result of our continuous labor, efforts and collaboration of our investors, loyal customers, management team and employees.

2010 was also a rebuilding year for the domestic economy as well as global economy. As economic headwinds lingered, TDB's performances went up as well as our clients, the major drivers of the economy. We continued to grow our presence with new products and services, additional banking hours and the opening of new branches, ATMs.

In the electronic card payment business, we made significant improvements by stepping up the security of VISA cards issued by us by transiting to "EMV CHIP" technology. In cooperation with BOM, TDB started implementation of integrated card payment system in Mongolia. The system will give to cardholders' opportunity to save their time and more convenient way to use their payment cards. The cardholders can use their bank cards to make transactions not only at issuer banks, but at other banks and their card merchant organizations. As part of a lottery promotion of "VISA FIFA-2010", TDB offered a unique opportunity for International VISA card holders, to watch World Cup - FIFA 2010 and we sent 10 of our luckiest customers to South Africa.

Our main focus in 2010 has been on developing the retail banking segment and we continued to win market share with our loans with flexible conditions, the new product "Easy loan", "Mobile banking", "Message card", the fast money transfer service "Easy one service" etc. TDB is the only Mongolian commercial bank which has completed Mobile Banking services and cooperates with all four Mongolian mobile phone operators.

One of our main branding products is certainly international payment settlements. TDB was in a very strong position to take advantage from its flagship product and offered to its customers reduced fee for all their foreign settlements. We made transaction fee zero for transactions made with RUB and as a result, transactions made with RUB increased by 40% from the previous year.

TDB opened new branch offices "Bayanzurkh", "220 myangat" in Baynzurh District and Khan-Uul district of Ulaanbaatar city and added to the number of ATMs we're operating, making it a total of 70. As an official operator of MoneyGram, we started using "MoneyGram ACP" program so that transactions would be much simpler and faster.

Besides the above mentioned achievements, TDB continued to support the communities where our customers and employees live and work. On the occasion of its 20th anniversary, TDB pledged a MNT 1 billion (USD 725 thousands) donation to the Ulaanbaatar City Administration to help build a brand new 100 bus stops and also we donated to the charity, granted a number of scholarships and grants.

We are very grateful for the dedication of our customers, domestic and international partner organizations for doing business with us for the last 20 years. And we will continue being your trusted partner for many years coming. We will strive to meet the demand that is getting bigger day by day as we broaden our network and meet global standards.

I wish you all a happy and healthy life. Also I want to thank our team of directors and each and every one of our employees for their intense labor that has been dedicated unconditionally to TDB. I'm confident the year 2011 will be one of remarkable achievements as well.

Sincerely,
Balbar Medree
CEO

MISSION STATEMENT

Mission

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

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.

Moody's Investors Service (December 2010)

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 obligations MNT	B1
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, shareholders and other stakeholders. 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.

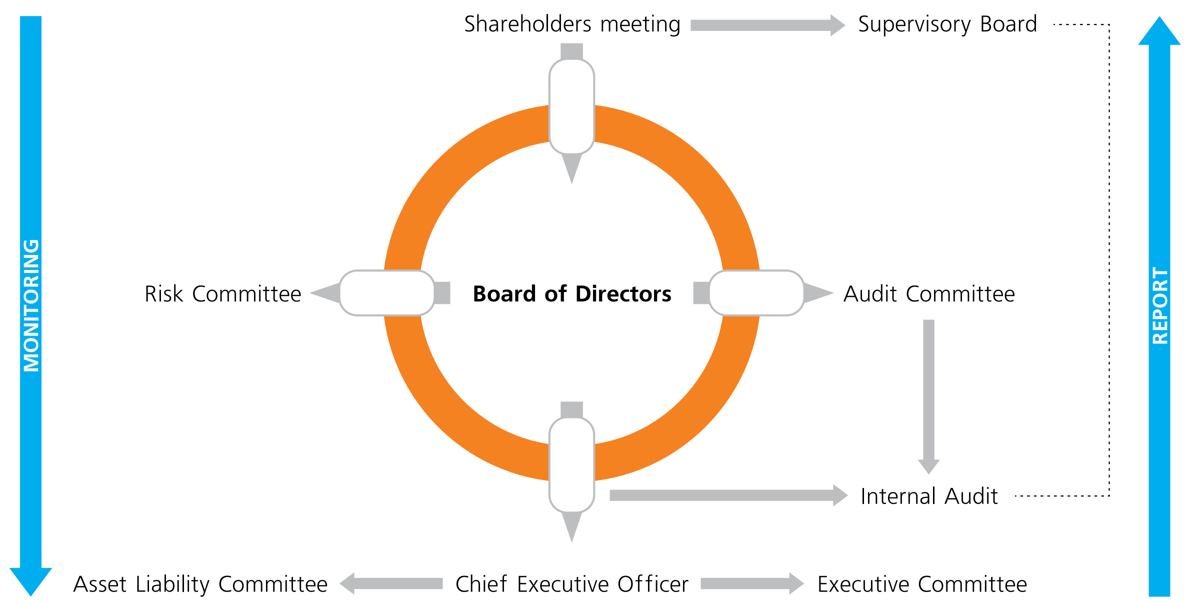
Employees

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

Chief Auditor:

Ms. Damdin GANTUGS

Company's secretary:

Ms. Dashzeveg DAVAAJAV

EXECUTIVE COMMITTEE:

Mr. Randolph KOPPA
President

Mr. Balbar MEDREE
CEO

Mr. Onon ORKHON
First Deputy CEO

Mr. Sanjaasuren ORGODOL
Deputy CEO

Mr. Lkhagvasuren SORONZONBOLD
Deputy CEO

Mr. Dambiijav KHURELBAATAR
Deputy CEO

Ms. Demchigjav OTGONBILEG
Deputy CEO

Mr. Onon ORKHON
First Deputy CEO

Mr. Lkhagvasuren SORONZONBOLD
Deputy CEO

Mr. Dambiijav KHURELBAATAR
Deputy CEO

Ms. Demchigjav OTGONBILEG
Deputy CEO

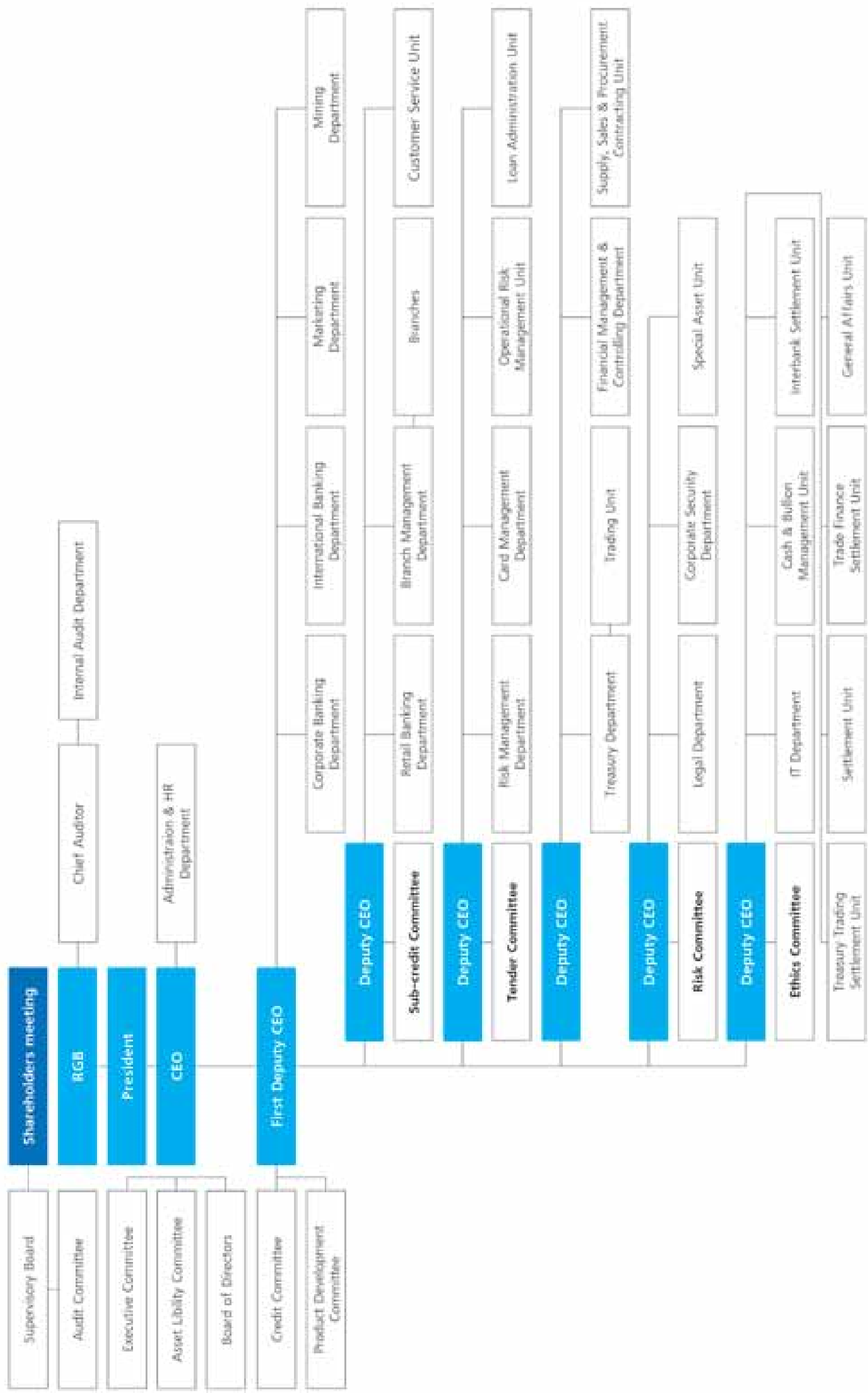
Mr. Sanjaasuren ORGODOL
Deputy CEO

MANAGEMENT TEAM

01	**Ms. Damdin GANTUGS**	Chief Auditor
02	**Mr. Luvsan NYAMSUREN**	Director, Administration and Human Resource Department
03	**Ms. Dagmid YANJMAA**	Director, Financial Management and Controlling Department
04	**Ms. Bayarbaatar BAYARMAA**	Director, Retail Banking Department
05	**Ms. Navaansharav NYAMSUREN**	Director, Corporate Banking Department
06	**Mr. Ichinnorov ORKHONKHUU**	Director, Information Technology Department
07	**Ms. Palamdorj GANTUUL**	Director, Internal Audit Department

08	**Ms. Khasaarai GANTSETSEG**	Director, Card Management Department
09	**Mr. Anya MUNKHBAYASGALAN**	Director, Marketing Department
10	**Ms. Vanchigsuren ENKHTSETSEG**	Director, Branch Banking Unit
11	**Mr. Shirendev ERDENEBAATAR**	Director, Corporate Security Department
12	**Mr. Mishig BATSUURI**	Director, Legal Department
13	**Ms. Baltsukh ERKHEMBAYAR**	Director, International Banking Department
14	**Mr. Gombosuren USUKHBAYAR**	Director, SME Banking Department
15	**Mr. Lkhagvajav GANTUMUR**	Director, Treasury Department

ORGANIZATIONAL STRUCTURE



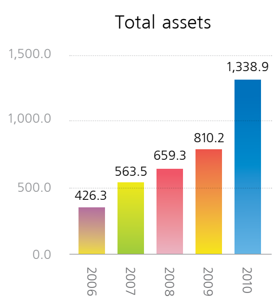
(2011.03.07)

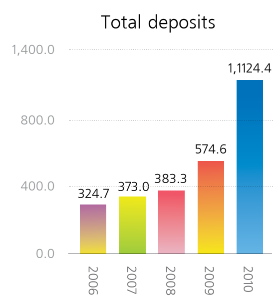
BUSINESS PROFILE

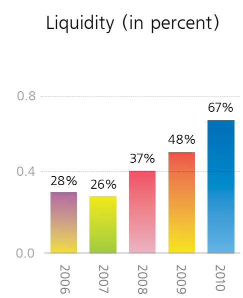
TDB has been and remains a strong supporter of the leading economic sectors of Mongolia ever since its establishment in 1990. It is a leader acknowledged by the international markets.

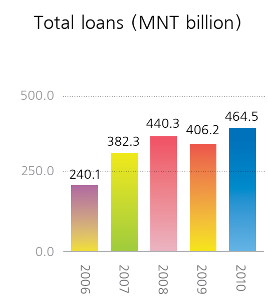
As a leading bank in the Mongolian banking and financial markets TDB offers to its customers a universal banking service through its over 70 types of international standard banking products, including long and medium term financing, various trade finance instruments, customized private banking service,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

TDB cooperates with more than 140 international financial organizations in order to participate actively in trade financing 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 markets as well as a long term good relationships with its loyal customers.

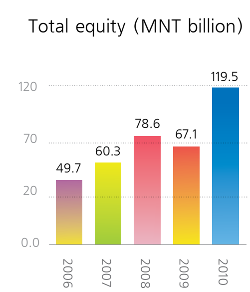






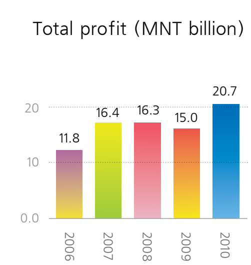


As of today, TDB is operating with departments such as Corporate banking, SME banking, Retail banking, International banking, Private banking and its over 30 branches and settlement centers throughout the country.



TDB has been the first and still the only Mongolian company to raise debt on the publicly traded international debt markets. A USD 75 million three year senior note issue was repaid fully in January 2010. In October 2010, the bank issued USD 150 million of three year senior notes, followed in November 2010 by a USD 25 million five year subordinated note issue. The senior note issue was taken up by a wide variety of Asian and European investors. Among the 69 investors, 42% of them were well known asset management companies, 25% large international banks, 18% investment funds and 11% other financial institutions.

As recognition of TDB's leading position "The Banker" magazine awarded "Best bank of Mongolia" title two times. Also it have been awarded with the title "Leading bank of Mongolia", "Socially responsible organization", "Best tax payer" from various government and NGO's.



By the end of 2010, total assets reached MNT 1338.9 billion representing market share of 21.6%. The own capital reached MNT 119.5 billion with market share of 30.7%. Profit after tax had been consistent year to year. It was MNT 11.8 billion in 2006, MNT 16.4 billion in 2007, MNT 16.3 billion in 2008, MNT 15.0 billion in 2009, and MNT 20.7 billion in 2010.

KEY EVENTS 2010

- TDB celebrated 20th anniversary as an oldest commercial bank in Mongolia.
- The bank successfully launched an issue of USD150 million three year Senior Notes and USD 25 million of five year subordinated notes to increase the bank's capital.
- TDB has begun issuing VISA EMV chip-based payment cards, which guarantees most secure electronic payments worldwide.
- TDB established "TDB Capital" LLC, TDB's wholly owned subsidiary and its investment banking arms providing corporate finance, research and advisory, securities brokerage and asset management services.
- New settlement centers "Bayanzurkh", "220 Myangat" were opened in Bayanzurh and Khan-Uul districts of Ulaanbaatar city.
- CEO B.Medree was awarded with "Honored Economist" for his contribution to the development of Mongolian banking sector and his efforts and successes in banking and O.Orkhon, First deputy CEO and S.Ganbat, Branch manager of "Zanabazar" branch were awarded with "The Order of Polar Star" medal.
- In cooperation with BOM, the bank actively participated in implementation of integrated card payment system in Mongolia and joined it first.
- TDB signed an agreement with "Center for overseas employment" LCC to provide comprehensive banking services, including savings, international payments and money transfers to the overseas workers employed by the center.
- TDB has selected as an official provider bank of financial services in Tianjin city free trade port zone.
- TDB signed an "Issuing Bank Agreement" with ADB under Trade Finance Facilitation Program.
- In cooperation with MoneyGram International the bank implemented "MoneyGram ACP" program in order to save its customers' valuable time and deliver faster money transfer service.
- TDB successfully signed an agreement with Korean Exchange Bank to launch an immediate money transfer service "Easy One" for individuals, students and who having business in Korea.
- First time in Mongolia, TDB introduced complete "Mobile banking" service.

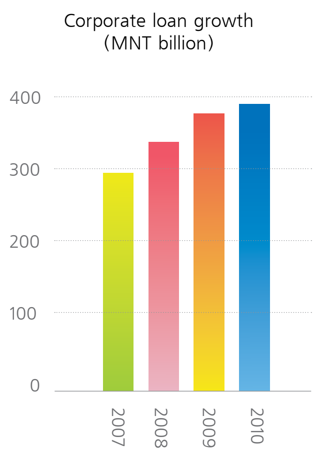
BUSINESS ACTIVITIES


CORPORATE **BUSINESS**

- Corporate Banking
- SME Banking

In 2010, TDB pursued its corporate lending activity, despite challenging economic conditions. TDB key competitive advantage is the longstanding relationship with the clients, which, combined with superior credit risk management, enabled us to expand our corporate client base. In 2010, the corporate banking department issued MNT 548.2 billion in loans and received MNT 495.9 billion as loan repayments. Total amount of SME loans issued by the bank during the reporting period was MNT 27.98 billion

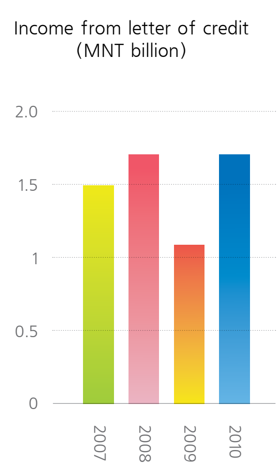
CORPORATE BANKING



TDB is the largest corporate lender in Mongolia with 26.0% corporate lending market share. The bank serves approximately 360 major Mongolian corporations in almost all major business sectors. TDB provides various corporate banking services including corporate lending, trade financing, syndicated lending and deposit taking to support and finance their day to day business activities in the ever-changing business environment.

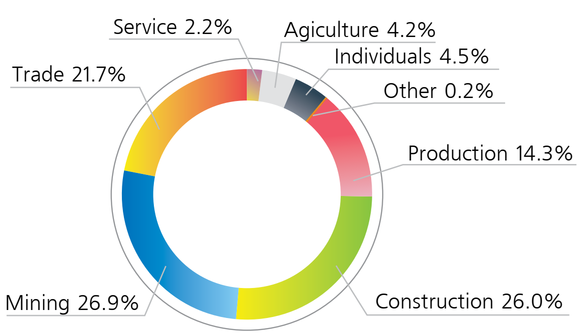
The bank is continuously striving to meet increasing demands of its corporate clients by developing and providing of financing types such project loans, co-lending, syndications and structured financing commonly used on international financial market, introducing of new full packages of the variety of banking products and services including electronic banking services, high quality credit cards, specialized loan products such as mortgages and as well as with more innovative products for their employees.

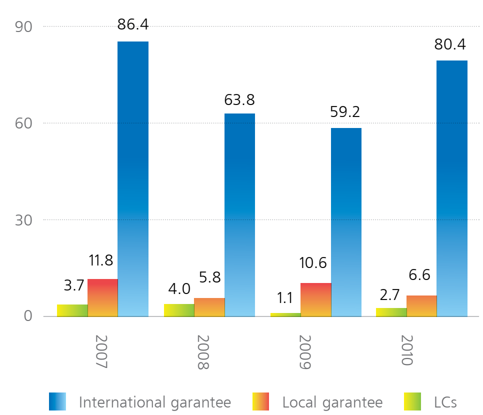
In 2010, TDB pursued its corporate lending activity, despite challenging economic conditions. We focused on development of a balanced quality loan portfolio in pursuit of a set of measures we have taken to improve the role of risk management in credit decision-making and borrower monitoring back in 2009. TDB key competitive advantage is the longstanding relationship with the clients, which, combined with superior credit risk management, enabled us to expand our corporate client base. On the corporate funding side, TDB vigorously diversified its funding portfolio throughout the year, both through offering deposit products offering to corporate clients and by raising debt on the publicly traded international debt markets with the issuance USD 150 million of three year senior notes and USD 25 million five year subordinated note issue. By the end of reporting period the total corporate loan portfolio increased by 6.2% from previous year reaching MNT 372.61 billion. In 2010, the corporate banking department issued MNT 548.2 billion in loans and received MNT 495.9 billion as loan repayments.



In 2010, in accordance with rapid growth of mining industry, the bank is actively working with current and potential clients to provide advisory services to new investors and to work with international partners in expanding their local operations to meet the increased demand as the economy develops in response. Strong economic growth is expected over the next years, mainly on the back of mining sector development. Certainly, investments and expenditures in the mining sector will be increased. As a leading supporter of the mining sector, TDB has been preparing to serve mining and mining supply companies with new and improved existing product lines and services. One of the main services in this field was import financing. As a result, the income from letter of credit and guarantee services increased by 58.6% from 2009, reaching MNT 1.8 billion. The graph below shows the income growth of LCs in the past five years (MNT millions):

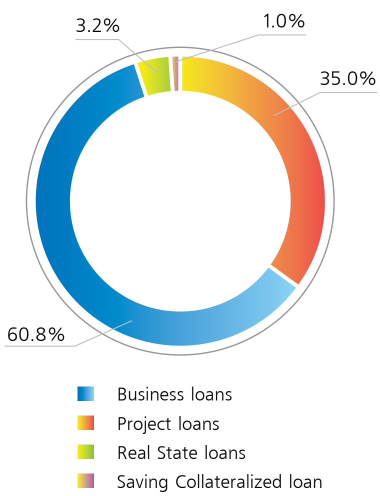
On account of the expected rapid economic growth over the next years, the bank is planning to increase corporate lending significantly. We intend to pursue aggressive development of operations with corporate clients by expanding the branch network in Darkhan, Erdenet, Khan-Bogd, Tsogt-Tsetsii and Ulaanbaatar. Alongside with offering a wide range of up-to-date advanced products, we will focus on our service quality and improve the credit processing time.





SME BANKING

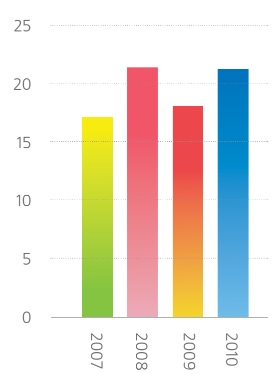
SME Loan portfolio composition



Despite higher level of risk in the segment due to challenging economic conditions, TDB pursued SME lending activities in 2010. The bank implemented a set of measures to prevent a bad debt build-up from the beginning of the financial crisis in the end 2008 and adopted a more conservative credit policy, suspended high-risk product offering and limited branch authorities with regard to credit decision making. The implemented measures enabled us to build a portfolio of loans to the most stable borrowers and pursue our growth strategy in 2009. In the beginning of 2010, TDB began to soften its credit policy and also 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, World Bank's Private Sector Development Loan, and Ministry of Food, Agriculture and Light Industry's SME Development Loan Fund. The key outcome of this SME lending policy is the expansion of the SME loan portfolio, especially the volume of Letter of credits and Guarantees on the trade and mining sectors increased by 3 times, compared to the previous year.

Total amount of SME loans issued by the bank during the reporting period was MNT 27.98 billion and at the end of the year the total outstanding SME loans accounted MNT 20.2.

SME Loan portfolio (MNT billion)



In 2011, TDB will continue to expand its client base and increase SME lending volumes. To do that, we intend to extend our SME products offering including working capital financing and propose interest rates at levels acceptable to clients, step up cooperation with SME lending facilitation funds and other specialized agencies. In addition to portfolio expansion and quality, TDB will ensure a better efficiency of our employees servicing SME clients at all stages of the operating process.

RETAIL BUSINESS

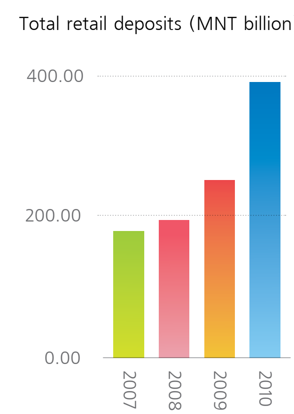
During the year of 2010, TDB focused on creating and expanding retail product offerings and high quality services with more flexible conditions to meet the increasing demands of retail customers. We achieved a significant increase in retail funding, with inflow growth rate considerably above the Mongolian banking system average.

RETAIL BANKING

During the year of 2010, TDB focused on creating and expanding retail product offerings and high quality services with more flexible conditions to meet the increasing demands of retail customers. Sourcing of funding from retail customers was a TDB priority in the segment throughout 2010. We achieved a significant increase in retail funding, with inflow growth rate considerably above the Mongolian banking system average. Our deposit products were mainly competitive not due to high interest rates but essentially due to features other than pricing: expansion our branch network and awareness of TDB's high standard image with its 20th anniversary celebration, the longstanding bank in the market.

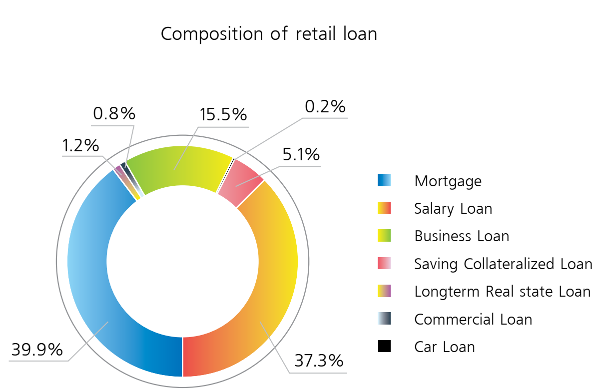
Deposits

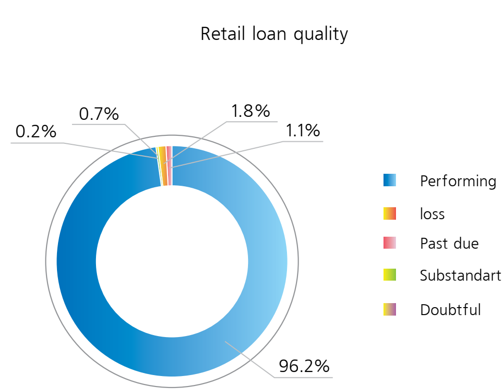
Alongside with the retail funding, we focused on customer oriented services and the maintenance of collaboration with bank's customers to build long term relationships. As the longest and one of the largest banks in Mongolia, TDB is branded as the most reliable bank in the country and we organized a number of successful marketing campaigns surrounding the 20th anniversary of the bank. Total retail savings of the bank have been increasing year by year, and it accounted MNT 399.2 billion in 2010 and increased by 54.6% from 2009. The Bank's retail deposits were up 52.8% in 2010. In 2011, we intend to further develop our deposit product offering and improve client service quality.



Lending activities

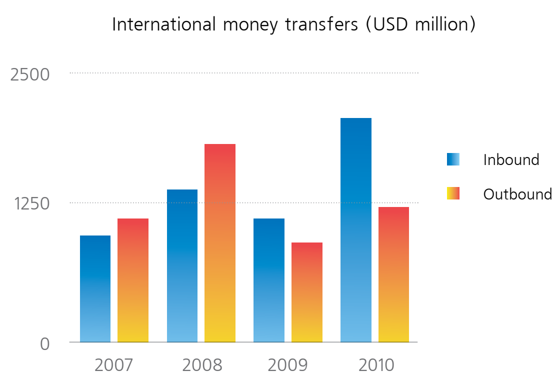
Retail loans have taken an outstanding role in the loaning operations of the bank. TDB pursued lending to retail and small sized enterprises with competitive interest rates within the flexible lending policy. Although competition in the retail loans market has increased, the bank has expanded the quality and range of personal lending products and in the reporting period the retail loans of the bank increased by 84.1% compared to the previous year, representing MNT 83.8 billion at the end of 2010. The lowering of mortgage rates resulted in significant growth of mortgage loans and it represented almost 40% of the retail loan portfolio, which itself grew by 46.2% to MNT 35.5 billion. In 2011, the bank is expecting to increase the share of retail loans to the total loan portfolio of the bank.





International money transfer service

As a leader in the international payment settlement and always responsive to the client's needs, TDB has been constantly improving its money transfer offerings. Specifically, we reviewed our product offering in January 2010, lowering the fee in line with the client needs.
As a result, the volume of outbound and inbound international transfers had increased by 46% and 79% respectively from the end of 2009.

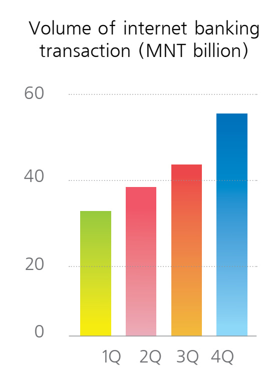


To boost sales and to reduce time of client service, MoneyGram software was renewed to "MoneyGram ACP" program and the direct result of the operation was elimination of the need to fill the form when sending and receiving money through MoneyGram. Through this, Moneygram service went to another level and customers able to receive and send money in 10 minutes all over the world without exchange rate risk in EUR or USD.

Virtual products and services

The bank offers the widest variety of advanced technology banking products in Mongolia which are provided through electronic channels and allow customers save their time. Such as:

- Internet banking
- Mobile banking
- E-billing,
- SMS banking
- Fly card and Fly payment.
- Transaction by fax
- Easy unit
- Charge to Most Money account



In 2010 we offered several new mobile products such as Mobile banking, Easy unit, Charge to Most Money account. The number of transactions through the internet went up by 20% compared to previous year.

CARD BUSINESS

Based on its privileged relationships with international financial institutions on the establishment, TDB started acquiring service of AMEX credit cards in collaboration of American Express Company in 1991, which has became a fundamental stage of card business development not only for TDB but for Mongolia.

In 2010, the number of active card holders of the bank reached 120’000 and increased by 19% from previous year. The number of merchant organizations exceeded 1200.

Deposits collected by the card management department increased by 44.2 percent from 2009, reaching MNT 38.9 billion.

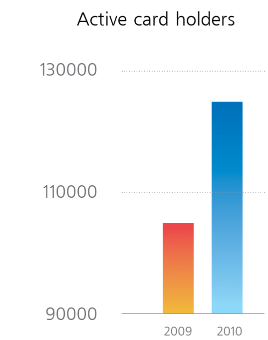
By the end of the year, credit card loan balance accounted MNT 30.5 billion which increased by 2.7 times, consisting 36.6 of the total bank’s small loans.

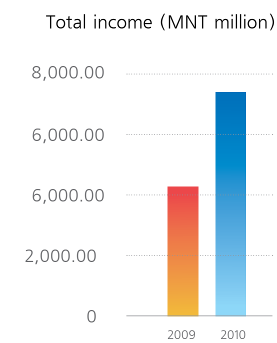
Card service income becomes one of the main components of the bank’s overall income of fees and commissions. In 2010, card service fee’s income reached MNT 2.2 billion, accounting 30% of the total bank’s fee income. In the reporting period the total income of the CMD accounted MNT 7.2 billion.

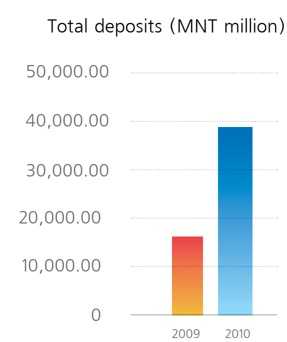
In the reporting period, TDB has started to establish EMV standards to meet most secure technology available today and implemented the EMV chip-based technology for all VISA cards, which supports the most secure and convenient e-payment method.

Furthermore, in order to provide and support secure internet payments of its customers the bank has implemented the latest and safest technologies such as Verified by Visa of VisaWordWide and MasterCard Secure Code of MasterCard.

In cooperation with BOM, TDB started implementation of integrated card payment system in Mongolia. The system will give to cardholders’ opportunity to save their time and more convenient way to use their payment cards. The cardholders can use their bank cards to make transactions not only at issuer banks, but at other banks and their card merchant organizations. As part of a lottery promotion of “VISA FIFA-2010”, TDB offered a unique opportunity for International VISA card holders, to watch World Cup - FIFA 2010 and we sent 10 of our luckiest customers to South Africa.









INTERNATIONAL BANKING AND **INVESTMENT ACTIVITIES**

In October 2010, TDB successfully launched an issue of USD150 million three year Senior Notes and USD 25 million of five year subordinated notes. TDB is still the country's first and still only issuer of debt in international publicly traded debt markets. These issues have been part of an EMTN (Euro Medium Term Note) program, listed on the Singapore Stock Exchange and arranged for the bank by ING Debt Capital Markets, which allowed issuance of securities up to USD300 million.

INTERNATIONAL AND INVESTMENT BANKING

In the reporting year, TDB was able to expand its international cooperation by establishing new relations with many internationally recognized correspondent banks. Furthermore, the bank successfully launched an issue of USD150 million three year Senior Notes and USD 25 million of five year subordinated notes to increase the bank's capital.

Correspondent relations

As the end of the year 2010, number of correspondent banking exceeded up to 140, making TDB with most extensive international banking network among local banks in Mongolia.

TDB has strengthened its rewarding relations with Banks of P. R China by opening CNY and USD accounts at the leading bank of China, Industrial and Commerce Bank of China (ICBC) and Bao Shan bank, the first commercial bank of Bao Toa city, China. TDB's representatives attended the "Tianjin-Mongolian Summit" in Dong Jiang Free Trade Port Zone of Tianjin and established a foundation of cooperation with Shanghai Pudong Development Bank. TDB also opened a CAD account with Canadian Imperial Bank of Commerce (CIBC), which is the fifth largest bank of Canada, rated AA- by Fitch and A+ by S&P. In support of banknote business, TDB signed a Banknote agreement with OCBC Bank of Singapore and agreed to open its USD account.

In 2010, the bank hosted numerous strategically important international conferences and forums in Mongolia and abroad. TDB co-organized and sponsored "Asia Mongolia Investment Forum", organized by Euromoney in Beijing in March 2010, "Mines and Money Mongolian Investors Conference" in Hong Kong in October and "Mongolia-Europe Investors Forum" with Terrapin in London in November 2010. These activities were oriented toward attracting foreign investors to Mongolia and supporting international relationships that can impact country's economic growth positively. As a result of above events, the bank was able to share its expertise with foreign investors and help them understand where the best opportunities lie in Mongolia and how to better access these opportunities.

Investment Banking

In October 2010, TDB successfully launched an issue of USD150 million three year Senior Notes and USD 25 million of five year subordinated notes. TDB is still the country's first and still only issuer of debt in international publicly traded debt markets. These issues have been part of an EMTN (Euro Medium Term Note) program, listed on the Singapore Stock Exchange and arranged for the bank by ING Debt Capital Markets, which allowed issuance of securities up to USD300 million. TDB considers the second issue to be a success, as the amount was USD 100 million more than that of the first and the rate was lower this time.

In order to expand its investment banking business TDB, the oldest and one of the largest banks in Mongolia, transformed its International and Investment Banking Department into newly established "TDB Capital" LLC in December 2010. Under the approved new Banking law (2010), commercial banks were allowed to be able to have a subsidiary or daughter company to provide investment banking services, such as underwriting, brokerage, advisory, insurance and asset management. Thus, TDB Capital is the first ever investment banking services provider in Mongolia and aims to meet the clients' specific requirements with tailored investment solutions using its human and capital resources, expertise and knowledge of the local markets, relationships with international banks in introducing Mongolia to international markets. TDB Capital, since its inception, has started working on several landmark projects.

Nostro accounts

US Dollar	HSBC, Citi, Standard Chartered, Commerzbank, ICBC, Agricultural Bank of China, KEB, UniCredit Bank, China Construction Bank, Sberbank, OCBC Bank, Россельхозбанк, Baoshang Bank
Euro	Commerzbank, ING
Japan Yen	Bank of Tokyo-Mitsubishi UFJ, Mizuho
Swiss Franc	Credit Suisse
UK Pound Sterling	HSBC
Australian Dollar	HSBC
Canadian Dollar	CIBC
New Zealand Dollar	HSBC
Singapore Dollar	OCBC Bank
Hong Kong Dollar	Hang Seng Bank
Korean Won	KEB
Russian Rouble	UniCredit Bank, Sberbank, Россельхозбанк
Chinese Yuan	ICBC, SPDBank, Baoshang Bank, China Construction Bank, Agricultural Bank of China
Sweden SEK	Nordea

Syndicated loan facilities and on-lending program implementation

TDB was the first bank to implement syndicated loan facilities among local banks and since then it has been successfully expanding its operations on organizing jointly with the international and domestic financial institutions syndicated loan facilities for its bigger corporate clients in petrol import and mining sectors, the key contributing sectors of the economy of Mongolia. In the reporting year the Bank decided jointly with reputable international banking institutions syndicated loan facilities of USD 16 million for the bigger corporate clients.

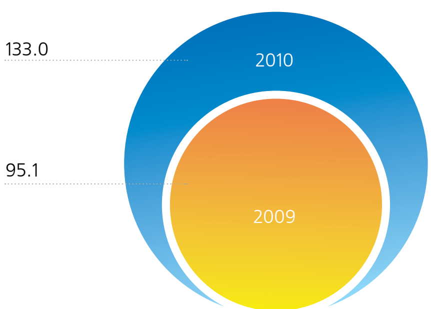
By the end of 2010, the bank disbursed a loan with total amount of USD 400,000 and repaid sub-loan of MNT 411.5 and USD 400 thousand to Bank of Mongolia within the framework of World Bank "Private Sector Development Credit-2" project.

Furthermore, within the World Bank project the bank has implemented "Technical Support" project to improve knowledge and qualification of its staff, and it also developed "Training Assistance" program approved and financed by World Bank.

TDB has been selected as a participating bank of two stage loan program by Japan Bank for International Cooperation, in support of SME development and environment protection. In the reporting period, the bank received USD 180 thousand and MNT 430 million funds for 3 sub loans.

The bank has been an implementer of SME support program loans provided by KfW bank, Germany for 11 years. In the last year, the bank was able to accumulate EUR 775.2 thousand for 5 sub loans.

Trade finance



In 2010, almost 57% of Mongolia's Trade Finance related transactions were handled by TDB.

TDB provides payment and settlement services to support its customers' cross border trade operations by issuing import LCs and guarantees using the credit lines of over USD 140 million, which are approved by 28 international banks and financial institutions. As a result of such services, in this fiscal year, the trade finance volume granted to its customers doubled, compared to previous year. In March 2010, TDB joined a Trade Finance Program, implemented by Asian Development Bank (ADB) , since its approval the guarantee line has been actively utilized. As of December 31, 2010, the total trade finance transaction covered by ADB guarantee reached $ 7.0 million.

In order to promote trade relations between Mongolia and the OECD and EU member countries,TDB and Commerzbank have signed a Basic Loan Agreement of EUR 15 million to provide long term financing for the imports of mining equipments and other products from European countries. Also, the bank signed Credit facility agreement with ICBC to support imports from China.

In July 2010, Korean Export and Import bank increased the "Interbank Import Credit Facility" from USD 5 million to USD 10 million, and organized "Customers Conference" to support and develop economic and business cooperation between Korea and Mongolia.

In March Taiwan Export and Import Bank increased the "Relending Facility Agreement" from USD 2 million to USD 4 million, the agreement is for the support of imports of machinery and other manufactured products from Taiwan.

TREASURY AND TRADING ACTIVITIES

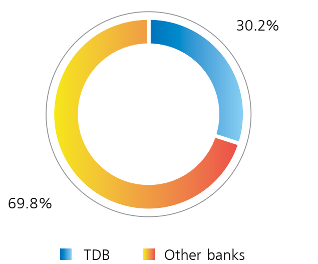
TDB is successfully maintaining its leading position in the local foreign exhange and bullion market as it offers well tailored international payment and remittance service by most of the foreign currencies. In 2010, TDB has successfully diversified its funding portfolio by intensifying the activities to attract free capital inflows of state-owned and private organizations as well as funding from foreign banks and financial institutions.

TREASURY

Currency market

TDB is successfully maintaining its leading position in the local foreign exhange and bullion market as it offers well tailored international payment and remittance service by most of the foreign currencies.

FX market share

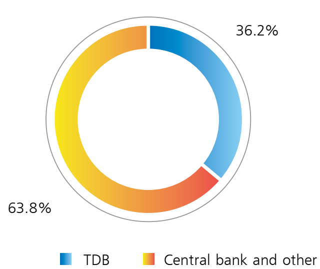


The bank regularly provides cash and non-cash trading in more than 14 major currencies. Total amount of currency trading has been increased by 1.2 times as a result of the bank's policy to have the most rational and flexible rates and technology to make currency trading and money transfers more smooth and fast.

In addition to advancing GRATS system which was launched in 2009 in order to make currency service more efficient and complex, new improvements implemented in this financial year were welcomed well by our clients.

Gold market

Gold market share

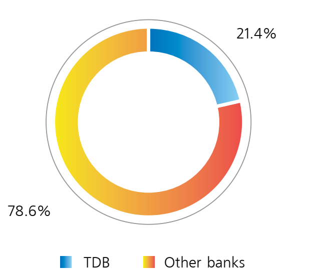


TDB is maintaining its leading position in the gold bullion market through its comprehensive and deep business relationship with top Mongolian companies. Moreover, it also aims to provide full commodity-linked products and services to the all the customers in order to help meeting their financing needs.

Even the local gold companies expected to have clear view of the market and the termination of "Windfall tax" law, would be valid in Jan 1st of 2011, TDB has purchased 694 kg bullion gold from 26 mining companies.

Money market

Money market share



As TDB is a major player in local money market and most active commercial bank in the Government and Central bank bill trading, it has been significantly contributing on the first and secondary market growth.

Total portfolio of Central Bank securities increased by 3 times from the previous year, reaching MNT 222.3 billion in 2010 and this financial year the bank purchased MNT 32 billion Government bonds, which was the indication of rapid developing market.

Asset and liability management

Within the framework of asset-liability management, the Bank strives to reach increased liquidity of assets as well as profitability and raise more capital sources. The percentage of interest earning liquid assets in the total assets, such as central bank securities and short term deposits from other financial institutions has increased.

In 2010, TDB has successfully diversified its funding portfolio by intensifying the activities to attract free capital inflows of state-owned and private organizations as well as funding from foreign banks and financial institutions. The total deposit is increased by 58.7 percent from the previous year, reaching MNT 919.9 billion.

TDB has successfully issued USD 150 million three year Senior Unsecured Notes on October 2010 and USD 25 million five year Subordinated Debt in order to increase the bank`s funding and capital bases, and  it was clear confirmation of the Bank`s ongoing firm standing in the financial market.



RISK MANAGEMENT

One of our goals was to lower the percentage of NPL in the total loan. As result, overdue loan in the total loan portfolio was 3.53 percent decreased from 4.47 percent, non-performing loan decreased from 5.34 to 4.12 percent from the previous year. By the end of 2010, total overdue and NPL decreased by 11.38 percent comparing with the previous year.

RISK MANAGEMENT

The role of risk management in TDB business processes is crucial and one of the factors 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.

Credit risk management

The bank has specific loan policy, risk management policy, regulation for loan operation such as risk identifying, rating, measurement, monitoring, managing and reporting. And we developed special procedure to screen credit need, decision making, issuing loan, monitoring and repayment.

Within the loan risk management activities bank has take over followings:

- To coordinate with market demand we renewed meat, gold and construction sector financing policy.
- To decentralize the loan in the central office, the bank gave the authority to the branches to approve SME loan up to MNT 500.0 million.
- Increased the SME loan limit up to MNT 1 billion.
- To refine the loan portfolio analysis, we renewed the scoring system on Corporate and SME loans.
- Refined the monitoring procedure of the loan issuance by permanently registering it in the bank main data base.
- One of our goals was to lower the percentage of NPL in the total loan. As result, overdue loan in the total loan portfolio was 3.53 percent decreased from 4.47 percent, non-performing loan decreased from 5.34 to 4.12 percent from the previous year. By the end of 2010, total overdue and NPL decreased by 11.38 percent comparing with the previous year.

Reporting financial year loan portfolio quality:

Total loan portfolio (by sort)	2009	2010
Performing	90.2%	92.3%
Past due	4.5%	3.5%
Non-qualitative loans:	5.3%	4.1%
Substandard	0.3%	0.8%
Doubtful	3.4%	1.6%
Loss	1.6%	1.7%
Total	100.00%	100.00%

Market risk management

Market risk management is risk that banks can be faced with associating market parameters fluctuation such as interest rate and exchange rate.

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

Portfolio risk management

To rate the portfolio risk the bank started using VaR (Value at Risk) method since 2003 and the bank compare and monitor whether it's within the limits set by the Asset-Liability Committee.

VaR values in the reporting period: (MNT)

Reporting year	Max. VaR value	Min.VaR value	Average VaR value
2010	511,151,733	2,265,459	101,622,473

RMD applies a back-testing method to ensure if losses from the bank's portfolio were measured realistically, and profit and losses exceeded VaR values are monitored daily if they were in the range of approved amount that has been set by Mongolbank. As of 2010, the VaR values were in the approved green range.

Back testing results of the reporting period:

Back-testing (250 days)	**Mongol bank requirement**	
	Exceeded value	Zone
VAR value (confidence level 99%)	**3**	**Green**

Liquidity risk management

The purpose of liquidity risk management system is keeping the liquidity level consistent; managing the funding sources and to set limits for liquidity reserves.

In the framework of liquidity risk management, RMD sets appropriate liquidity ratio and limits in addition to reporting on the issue of funding inflow and outflow cycle through GAP report. The bank recently began work on to implementing the latest modern technology in the current market.

Interest rate risk management

The bank's interest rate risk management contains sequential steps of risk management such as defining, measuring, reducing and monitoring the risks. The bank also analyzes the variation of the market interest rate.

The principles of interest rate risk consist of defining profitable interest rate structure; soften the effects on the interest rate profit so that the bank profitability couldn't be affected.

The bank is researching the world best practice and methods to adopt in the banking activities as the bank forecasting the interest rate on interest rate sensitive assets and liabilities to limit the loss and profit size at various life stages.

Operational Risk Management

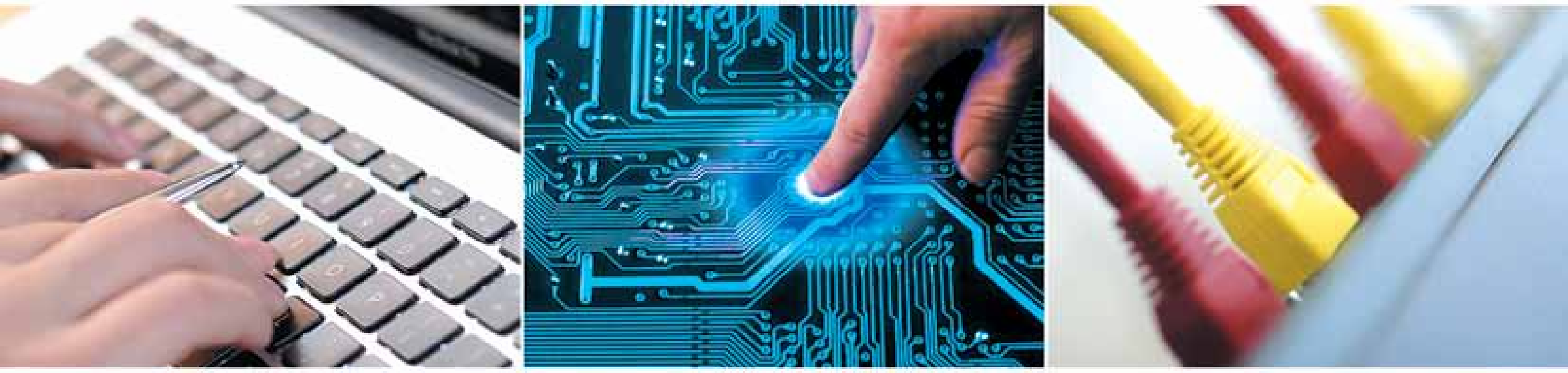
The Bank has implemented its Operational Risk Management Framework in consistent with the principles of Basel Committee on Banking Supervision. Operational and Compliance risk Policy of the Bank is executed through Operational Risk committee and Operational risk management unit. Approaches and methods of identification, assessment, monitoring, reporting, and mitigation of operational risk and responsibilities of their executions are defined in Procedure of managing operational risk process; and it is complied by all unit and staffs.

In 2010, Bank has implemented internal Risk management program that collects operational risk data, and also thanks to GrapeCity's GraPolicy system, we were able to monitor financial transaction through the bank based algorithms in real time.

Regulatory risk management and its monitoring

The Bank has renewed its previous implemented internal policy and regulation on Anti-money laundering and terrorism financing with regulations that are required in the domestic legislation as well as 40+9 recommendation issued from Financial Action Task Force (FATF) and now fully forced and complied by its all employees.

With the help of GraPolicy system we are implementing the real time monitoring on the names from the black lists issued by the international regulatory bodies (such as FATF, UN, OFAC) on individuals and entities that might involved with the money laundering and terrorist financing or countries without financial monitoring mechanism. Also know your customer procedure, evaluation on risk based approach are implemented and obeyed through the Bank.



IT DEVELOPMENT

TDB strengthened its leading position of an implementer of new and advanced information technology products in the banking and financial sector in 2010, and implemented several big projects to upgrade bank's business functions.

INFORMATION TECHNOLOGY

TDB strengthened its leading position of an implementer of new and advanced information technology products in the banking and financial sector in 2010, and implemented several big projects to upgrade bank's business functions.

"TW2GB" project: integration of main database and card system database of TDB

By integrating the main and card system database, the bank built complete database on the all of the bank accounts and customers. Through this historic integration TDB have now truly online banking system benefiting customers by eliminating the wait time after card transactions. It took over 5 years starting from research till the completion of the project.

"SMS- card" service

"SMS- card" service allow customers to get the balance information by message or by email in the electronic form and it opened possibility to monitor the account without coming to ATM or branch offices.

Complete mobile banking service

Mobile banking service made it possible to get the almost all of the banking services through the all operators' mobile phone. Main advantage of our mobile banking service is, not depending on the mobile phone service carrier, all mobile phone subscribers can get the service and make interbank transactions.

VISA EMV chip card by TDB

The project to issue EMV chip cards, which is a highly secure card that uses latest technology in this field, was successfully implemented.

Integrated card payment system

The bank actively took part in the project "Payment settlement center switch". The main goal of the project is to build integrated card transaction terminal capable of accepting all domestic banking cards, initiated from Mongol bank and the bank became one of the first banks to use the network.

Leading internet purchasing technology

To ensure our customers safety on the internet purchasing via using TDB payment cards, the bank adopted Visa Wordwide's Verified by Visa, MasterCard's MasterCard Secure Code technology.

"MoneyGram Agent Connection" project

With cooperation with "MoneyGram International" the bank developed online based innovative technology within framework of "MoneyGram Agent Connection" project and started using it in the every branches and agent banks.

Finally, the bank's ATM's and POS terminals network has expanded and connected into a high-speed broadband cable network. Our clients now have the possibilities of using more features and having more services on the ATMs.

HUMAN RESOURCES

The 2010 was the year to expand bank's operation, improve its market position. Our achievements were driven by timely with sound decisions and coordinated efforts of our team. Indeed our key competitive advantage is our team of committed professionals able to accomplish most challenging tasks: awareness and understanding of the Bank goals and strategic objectives by all our employees as well as their ability to share a common corporate culture.

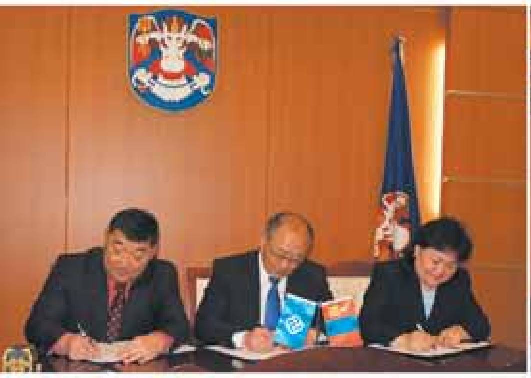
HR POLICY

The 2010 was the year to expand bank's operation, improve its market position. Our achievements were driven by timely with sound decisions and coordinated efforts of our team. Indeed our key competitive advantage is our team of committed professionals able to accomplish most challenging tasks: awareness and understanding of the Bank goals and strategic objectives by all our employees as well as their ability to share a common corporate culture. In implementation of its HR policy based on strategic objectives, TDB implemented the following projects successfully in the reported financial year:

- Human resource plan has been developed in coordination with entire bank strategy and business plan to create environment for current and future skilled professionals to work sustainably in a secure working place, to attract more people that are professionally competent and positive team players.
- Main goal for development and training policy of the bank is to improve banks competitiveness by fostering the skills and knowledge of its employees based on their desire to improve their knowledge and skills constantly, which will enable them to improve their efficiency and performance.
- To improve and further develop the KPI linked remuneration and bonus system that is based on the employee's contribution in the business and bank development, efficiency, performances.

Human resource policy implementation

- The sustainable and open system that enables bank to choose the employees from foreign and domestic market gives the opportunity to choose career path to its employees
- The adaptation program specifically designed for newly employed people, training on the work place, new employee orientation, the distance training, professional completion shows its effectiveness over and over again.
- In 2010, the number of employee increased by 10% comparing with same period of last year. The average age of staff is 31years old.
- In 2010, the bank spent MNT 230 thousand to per employee for training. Comparing with trained employee number between total employee number, the average shows that each employee had two trainings in financial year 2010.
- In coordination with macro and micro economic changing situation the bank continued to improve its remuneration and social policy and started giving promotional salary every month.
- The salary and mortgage loan for its employees increased 3 times this year comparing with 2009. Moreover the interest rate of employee salary loan decreased by two times in 2010.
- Monetary and non-monetary incentives have been used to incentivize the bank employees. As a result, in the reporting year, one out of three employees received non monetary incentives. In 2010, 123 employees have been awarded by national, city and ministrial awards.
- To provide access to information about the most recent corporate news as well as about human resource department activities we have created an internal open web page for its employees.



SPONSORSHIP AND **CHARITY**

We participate in charitable projects, finance social projects and support major economic initiatives. The bank also recognizes the need to support the disadvantaged population, particularly children. In 2010 the bank donation has been reached MNT 1.3 billion.

SPONSORSHIP AND CHARITY

TDB is engaged in various sponsorship and charity activities, including culture and art patronage, sponsorship of sport events. We participate in charitable projects, finance social projects and support major economic initiatives. The bank also recognizes the need to support the disadvantaged population, particularly children. In 2010 the bank donation has been reached MNT 1.3 billion.

Activities conducted in 2010 within the framework of this policy included:

- In 2010 TDB built 100 international standard bus stops by its funds MNT 1 billion to contribute our capital's prosperity and developments.
- Understanding its social responsibility as an investment in the well-being of others, the bank (TDB) presented MNT 50 million aids from the bank and its employees to National Emergency Management Agency (NEMA), to help rural families during this weather emergency.
- Participated in New Year celebration of School No.29 for the handicapped and disable children and distributed gifts to about 380 childrens. This activity has become a traditional event for the last six years.
- The bank provided financial assistance for children's soccer team "Hope and faith 2010" to give those children opportunity to compete international competitions.
- To help an orphanage children center, TDB has sponsored the musical play "The Fantastic" which played by volunteered "UB players", composed with the expatriates in Mongolia. The revenue generated from this event went to the orphanage center.
- To give our contribution for the Mongolian children's future, TDB gave financial assistance to a 7th grade scholar of Mongolian Music College to enable to attend International young pianist competition in San-Jose, CA USA on the behalf of Mongolian young pianists.
- Financed the travel cost of the debate team from "Hobby school" for the world debate competition in Doha, Qatar.
- Five years general sponsor and partnership for the "Sensation -2020" football in a gym-hall competition.
- Lead sponsor of the "Silver ring" basketball competition organized among journalists in last ten years.
- Sponsored and actively participated in several events: "Euromoney-2010" investment forum in London, UK, "World economic forum 2010", mining sector international investment forum "Discover Mongolia-2010", "London stock exchange" workshop in Ulaanbaatar , Mongolia.
- Sponsored TV dance show "Mongolian best dance crew", broadcasted on the Mongolian National Television.
- General sponsor of "Ozomatli" group concert in Mongolia.
- Sponsored 85th anniversary celebration of Emergency management agency of Chingeltei district who are always ready to help the citizens in the case of fire and natural disaster without hesitation.
- For the 20th anniversary of Democracy daily newspaper awarded 2 of its employee with TDB's award.
- Sponsored the wrestler's travel cost, which had competed in the World Championship of senior judo wrestlers in Budapest, Hungary.
- Fee-free banking services and financial assistance to a student who is studying in South Korea with excellent educational achievement.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Financial Statements

31 December 2010 and 2009

(With Independent Auditors' Report Thereon)

TABLE OF CONTENTS

Trade and Development Bank of Mongolia LLC
Corporate Information

Registered office and principal place of business	Juulchny Street—7 Baga toiruu-12 Ulaanbaatar, Mongolia
Board of Directors	D. Erdenebilieg (Chairman) D. Munkhbaatar Ch. Enkhbold T. Tsolmon T. Boldkhuu
Bank's secretary	D. Davaajav
Independent auditors	KPMG Samjong Accounting Corp. Seoul, Korea

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Independent Auditors' Report

Members
Trade and Development Bank of Mongolia LLC:

We have audited the accompanying cosolidated financial statements of Trade and Development Bank of Mongolia (the Bank) and its subsidiary (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010 and 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010 and 2009, and of its consolidated financial performance and its consolidated cash flows for the years 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.
18 March 2011
Seoul, Korea

Consolidated Statements of Financial Position

31 December 2010 and 2009

	Note	2010 MNT'000	2009 MNT'000
Assets			
Cash and cash equivalents	4	553,467,811	266,984,760
Investment securities	5	260,735,448	90,300,363
Loans and advances, net	6	464,466,630	406,214,658
Bonds purchased under resale agreements	7	-	799,556
Subordinated loans	8	7,000,000	7,000,000
Property and equipment, net	9	19,811,084	21,439,909
Intangible assets, net	10	655,894	800,719
Foreclosed properties, net	11	977,345	2,099,347
Other assets	12	31,765,857	14,724,800
Total assets		1,338,880,069	810,364,112
Liabilities and Shareholders' equity			
Liabilities:			
Deposits from customers	13	919,944,749	579,522,778
Deposits and placements of banks and other financial institutions	14	53,584,874	31,469,241
Borrowings	15	50,678,147	53,301,993
Current tax payables		1,481,974	1,343,586
Debt securities issued	16	173,280,281	59,639,556
Subordinated debt securities issued	17	31,218,538	-
Other liabilities	18	20,398,957	17,946,008
Total liabilities		1,250,587,520	743,223,162
Shareholders' equity:			
Share capital	19	6,610,113	6,610,113
Share premium		7,392,191	7,392,191
Treasury shares	20	(6,001,872)	(6,456,232)
Revaluation reserves	9	13,418,276	13,683,324
Retained earnings		66,873,841	45,911,554
Total shareholders' equity		88,292,549	67,140,950
Total liabilities and shareholders' equity		1,338,880,069	810,364,112

See accompanying notes to consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2010 and 2009

	Note	2010 MNT'000	2009 MNT'000
Interest income	21	89,212,736	77,313,558
Interest expense	22	(60,062,936)	(45,743,365)
Net interest income		29,149,800	31,570,193
Net fee and commission income	23	6,852,031	6,054,442
Other operating income	24	9,277,305	6,054,990
Net non-interest income		16,129,336	12,109,432
Operating income		45,279,136	43,679,625
Operating expenses	25	(18,578,760)	(17,683,001)
Allowance for impairment losses	26	(1,725,360)	(8,426,289)
Profit before tax		24,975,016	17,570,335
Corporate income tax	27	(4,277,777)	(2,598,784)
Net profit for the year		20,697,239	14,971,551
Other comprehensive income, net of income tax		-	-
Total comprehensive income		20,697,239	14,971,551

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended 31 December 2010 and 2009

	Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	Revaluation reserves MNT'000	Retained earnings MNT'000	Total MNT'000
1 January 2009		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	28	-	-	-	-	(16,328,021)	(16,328,021)
31 December 2009		6,610,113	7,392,191	(6,456,232)	13,683,324	45,911,554	67,140,950
1 January 2010		6,610,113	7,392,191	(6,456,232)	13,683,324	45,911,554	67,140,950
Net profit for the year		-	-	-	-	20,697,239	20,697,239
Total recognised income and expense for the year		-	-	-	-	20,697,239	20,697,239
Sale of treasury shares		-	-	454,360	-	-	454,360
Amount transferred to retained earnings	9	-	-	-	(265,048)	265,048	-
31 December 2010		6,610,113	7,392,191	(6,001,872)	13,418,276	66,873,841	88,292,549

See accompanying notes to consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended 31 December 2010 and 2009

	Note	2010 MNT'000	2009 MNT'000
Cash flows from operating activities:			
Net profit		20,697,239	14,971,551
Adjustments for:			
Depreciation and amortisation	25	2,473,750	2,004,581
Net interest income		(29,149,800)	(31,570,193)
Income tax expense		4,277,777	2,598,784
Property and equipment written off	25	2,258	2,630
Allowance for impairment losses	26	1,725,360	8,426,289
Operating profit (loss) before changes in operating			
assets and liabilities		26,584	(3,566,358)
Decrease (increase) in loans and advances		(58,393,449)	23,228,088
Increase in other assets		(12,448,853)	(2,650,389)
Increase in deposits from customers		340,421,971	205,052,704
Increase (decrease) in deposits and placements of banks			
and other financial institutions		22,115,633	(2,008,475)
Subordinated loans disbursed		--	(3,000,000)
Decrease in other liabilities*		(184,550)	(205,682)
Interest received		81,795,098	76,949,688
Interest paid		(57,256,310)	(45,760,347)
Corporate income tax paid		(4,139,389)	(1,731,202)
Net cash flows provided by operating activities		311,936,735	246,308,027
Cash flows from investing activities:			
Purchase of investment securities		(168,704,504)	(50,859,226)
Proceeds from bonds purchased under resale agreements		799,556	(799,223)
Purchase of property and equipment		(1,233,200)	(1,169,993)
Purchase of intangible assets		(358,878)	(246,679)
Proceeds from disposal of foreclosed property		819,716	578,041
Proceeds from disposal of property and equipment		889,720	--
Purchase of unquoted equity securities		(186,744)	(65,793)
Net cash flows provided by (used in) investing activities		(167,974,334)	(52,562,873)

*Represents fluctuation of other liabilities other than changes in interest payable

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows, continued

For the years ended 31 December 2010 and 2009

	Note	2010 MNT'000	2009 MNT'000
Cash flows from financing activities:			
Repayment of borrowings		(2,623,846)	(5,734,587)
Proceeds from (repayment of) debt securities issued		113,475,566	(35,391,800)
Repayment of subordinated borrowings		-	(10,140,080)
Proceeds from subordinated debt securities issued		31,214,570	-
Disposal of treasury shares		454,360	-
Dividends paid		-	(16,305,467)
Net cash flows provided by (used in) financing activities		142,520,650	(67,571,934)
Net increase in cash and cash equivalents		286,483,051	126,173,220
Cash and cash equivalents at beginning of year		266,984,760	140,811,540
Cash and cash equivalents at end of period	4	553,467,811	266,984,760

See accompanying notes to consolidated 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 20 branches and 11 settlement centers. There have been no significant changes in the nature of these activities during the year.

The Bank established TDB Capital LLC (TDBC), its wholly owned subsidiary, on 14 August 2008. TDBC is a Mongolian domiciled limited liability company incorporated in accordance with the Company Law of Mongolia and may be engaged in financial services activities within the parameters set forth in the Company Law, Civil Law and Law of Security Market of Mongolia and other relevant laws and regulations and those activities include, but not limited to, investing, financing, advisory, financial lease, financing investment, and foreign capital raising. The consolidated financial statements of the Bank as at and for the years ended 31 December 2010 and 2009 comprise the Bank and its subsidiary (together the "Group").

The holding company of the Group is Globull Investment and Development (SCA), owning 65.83% of interest of the Group, incorporated in Luxembourg and it is wholly owned by US Global Investment LLC (US Global), incorporated in the United States of America. US Global is a consortium owned by Central Asia Mining LLC and Mr. Erdenegileg Doljin (the current Chairman of the Group) and it directly owned 6.38% of the Group, effectively having total of 72.21%. During 2010, the Group sold 30,700 treasury shares or 0.93% interest to US Global and US Global's ownership either directly or indirectly amounted to 73.14% as of 31 December 2010.

2. Basis of preparation

Statement of compliance

The accompanying financial statements are consolidated financial statements that 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 consolidated financial statements were authorised for issue by the Board of Directors on 18 March 2011.

Basis of measurement

The consolidated 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

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

Use of estimates and judgements

The preparation of the consolidated 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.

Changes in accounting policies

(i) Improvements to IFRS 2009

In April 2009, the IASB issued amendments to IFRS, which comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments were effective at the latest for annual periods beginning on or after 1 January 2010. The adoption of the amendments did not have a material impact on the Group's consolidated financial statements.

(ii) Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combination

The Group has adopted improvements to IFRSs 2010 — Amendments to IFRS 3, effective 1 July 2010. The amendmendts 1) clarify that contingent conisideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004), 2) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and 3) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquire awards. The Group's adoption of amendements to IFRS 3 did not have any impact to the Group's consolidated financial statements.

(iii) Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements

The Group has adopted Amendments to IAS 27, effective 1 July 2010. The amendments requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control. Transactions resulting in a loss of control result in a gain or loss being recognized in profit or loss. The gain or loss includes a remeasurement to fair value of any retained equity interest in the investee. In addition, all items of consideration transferred by the acquirer are measured and recognized at fair value, including contingent consideration as of the acquisition date. Transaction costs incurred by the acquirer in connection with the business combination do not form part of the cost of transaction but are expensed as incurred unless they relate to the issuance of debt or equity securities, in which case they are accounted for under IAS 39. The Group's adoption of amendements to IFRS 3 did not have any impact to the Group's consolidated financial statements.

3. Significant accounting policies

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

Basis of consoldiation

Subsidiarie are entities controlled by the Group and the financial statements of a subsidiary are included in the consolidated financial statements.

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 Group 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 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 meet 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 Group 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 Group has the intent and ability to hold to maturity, and are nor designated as at fair value through profit and loss or as available-for-sale. This includes certain investment securities held by the Group.

(i) Classification, continued

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Group, 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 Group 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 Group 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 Group 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 Group 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 with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments.

Property and equipment

(i) Recognition and subsequent measurement

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. After recognition as an asset, property and equipment whose fair value can be measured realiably are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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 Group 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 life 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 Group 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

Impairment

The carrying amounts of the Group'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 Group 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 Group's loans and makes allowances for loan losses at the rates of 0%, 5%, 25%, 50% and 100% (2009: 1%, 5%, 25%, 50% and 100%), based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. 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 Group 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 Group 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 is recognised as loss of current operation in the statements of comprehensive income.

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 statements of comprehensive income.

Repurchase agreements

The Group 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 statements 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 statements of financial position when the Group 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 Group 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 Group’s primary format for segment reporting is based on business segments.

Revenue

(i) Interest income

Interest income and expense is recognised in the statements 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 Group 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 statements 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 statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statements of comprehensive income as an integral part or the total lease expense over the term of the lease.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly to equity or in other comprehensive income.

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

The Ministry of Finance issued a regulation on deferred tax differences in May 2010. However, Taxation Office of Mongolia has not implemented the regulation yet and deferred tax issues have not been incorporated in the Tax Methodology yet due to unfamiliarity of the deferred tax accounting among companies, including commercial banks, as well as the tax authorities. Substantial implementation efforts such as issuance of calculation methodologies, training and discussions with practitioners are required for smooth adoption. Bank of Mongolia is planning to issue a guidelines for commercial banks on calculation of deferred tax assets and liabilities and recognizes current accounting practice by commercial banks on deferred tax which does not comply with IFRSs.

Employee benefits

The Group 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 Group are recognised as an expense in the statements 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 2010, and have not been applied in preparing these financial statements:

- In May 2010, the IASB issued Improvements to IFRSs 2010, which resulted from the IASB's annual improvement project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The adoption of the amendments is not expected to have a material impact on the Group's consolidated 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 Group's 2011 financial statements and are not expected to have any impact on the Group'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 Group's 2013 financial statements and should be applied retrospectively upon adoption. The Group 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 31 December 2010 and 2009 were as follows:

	2010 MNT'000	2009 MNT'000
Cash on hand	49,351,824	24,215,992
Deposits and placements with banks and other financial institutions	273,434,020	63,061,651
Balances with Bank of Mongolia (*)	79,820,367	57,065,717
Deposits with Bank of Mongolia	150,861,600	122,641,400
	553,467,811	266,984,760

* Bank of Mongolia (BOM) requires that minimum 5% of average customer deposits for two weeks must be maintained with BOM. At 31 December 2010 and 2009, the required reserve amount was MNT 48,716,398 thousand and MNT 30,180,852 thousand, respectively.

5. Investment securities

	2010 MNT'000	2009 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost	1,596,562	1,409,818
Held-to-maturity investment securities		
Bank of Mongolia Treasury bills	222,266,870	84,190,545
Government bond	33,121,016	-
Asset-backed securities (MMC notes)	3,751,000	4,700,000
	260,735,448	90,300,363

Unquoted equity securities represent investments 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 Group plans to hold them on a long term basis.

At 31 December 2010 and 2009, MNT 32,370,578 thousand and MNT 6,109,819 thousand of investment securities are expected to be recovered more than 12 months after the reporting date.

6. Loans and advances

	2010 MNT'000	2009 MNT'000
Loans and advances to customers	473,923,449	418,371,076
Loans to executives, directors and staffs	4,547,005	2,966,184
	478,470,454	421,337,260
Allowance for loan losses	(14,003,824)	(15,122,602)
Net loans and advances	464,466,630	406,214,658

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

	2009 MNT'000	2009 MNT'000
At 1 January	15,122,602	6,984,279
Charge for the year	1,915,443	8,301,114
Written back/recoveries	(1,750,743)	(168,419)
Written off	(1,285,655)	-
Effect of foreign currency movements	2,177	5,628
At 31 December	14,003,824	15,122,602

At 31 December 2010 and 2009, MNT 274,073,537 thousand and MNT 197,857,616 thousand of loans and advances are expected to be recovered more than 12 months after the reporting date.

Transfers of mortgage portfolios

In 2008, the Group transferred its mortgage loans with carrying amounts of MNT 404,864,410 and USD 294,334 to Mongolian Mortgage Corporation LLC (MMC) in exchange of cash. In 2009, the Group transferred another pool of mortage loans with carrying amounts of MNT 4,700,819,887 in exchange of the bonds issued by MMC. There were no mortgage portfolios transferred to MMC during 2010.

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 Group accounted for these transactions as collateralized financing of which balance at 31 December 2010 and 2009 amounted to MNT 3,537,518 thousand and MNT 5,129,577 thousand, respectively.

7. Bonds purchased under resale agreements

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

In 2009 the Group entered into reverse repurchase agreements with Capitron Bank where the Group purchases and resells investments at MNT 800,000 thousand at maturity. The purchased securities are collateralized for the receivables pertaining to the respective agreements. There were no bonds purchased under resale agreements in 2010.

8. Subordinated loans

	2010 MNT'000	2009 MNT'000
Ulaanbaatar City Bank (UB City Bank)	4,000,000	4,000,000
Capitron Bank	3,000,000	3,000,000
	7,000,000	7,000,000

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 12.5% per annum and is to be repaid in full on 14 August 2014.

9. Property and equipment

Property and equipment as of 31 December 2010 and 2009 were as follows:

31 December 2010

In MNT'000

	Buildings	Office equipment and others	Computers and others	Construction-in-progress	Total
At cost/valuation					
At cost	219,396	2,741,063	3,657,314	1,077,229	7,695,002
At valuation	17,048,867	716,031	244,934	-	18,009,832
At 1 January 2010	17,268,263	3,457,094	3,902,248	1,077,229	25,704,834
Additions	-	467,416	272,277	493,507	1,233,200
Disposals	(800,884)	(10,000)	-	-	(810,884)
Write offs	-	(272,622)	(197,289)	-	(469,911)
Transfers	811,945	179,068	243,072	(1,234,085)	-
Elimination against accumulated depreciation	-	-	-	-	-
Revaluation surplus	-	-	-	-	-
At 31 December 2010	17,279,324	3,820,956	4,220,308	336,651	25,657,239
Representing items at:					
Cost	1,031,340	3,218,568	3,985,043	336,651	8,571,602
Directors' valuation	16,247,984	602,389	235,264	-	17,085,637
	17,279,324	3,820,957	4,220,307	336,651	25,657,239
Accumulated depreciation					
At 1 January 2009	478,932	1,378,837	2,407,156	-	4,264,925
Charge for the year	849,746	381,732	738,569		1,970,047
Disposals	(46,708)	(5,700)		-	(52,408)
Write offs		(140,395)	(196,014)	-	(336,409)
Transfers	-	-	-	-	-
Elimination against cost	-	-	-	-	-
At 31 December 31, 2010	1,281,970	1,614,474	2,949,711	-	5,846,155
Carrying amounts					
31 December 2010	16,997354	2,206,483	1,270,596	336,651	19,811,084

The Group disposed one of its branch building in 2010 which was revalued in 2008. Revaluation surplus of MNT 265,048 which was allocated to this property was released into retained earnings upon disposal.

There were no capitalized borrowing costs related to acquisition of property and equipment during 2010 and 2009.

31 December 2009
In MNT'000

	Buildings	Office equipment and others	Computers and others	Construction-in-progress	Total
At cost/valuation					
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	17,135,999	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	17,268,263	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	17,048,867	716,031	244,934	-	18,009,832
	17,268,263	3,457,094	3,902,248	1,077,229	25,704,834
Accumulated depreciation					
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	61,928	422,947	467,463	-	952,338
At 31 December 31, 2009	478,932	1,378,837	2,407,156	-	4,264,925
Carrying amounts					
31 December 2009	16,789,331	2,078,257	1,495,092	1,077,229	21,439,909

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	Buildings	17,048,867	Market value

The remaining property and equipment were revalued in 2005.

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 as of 31 December 2010 and 2009 would be as follows:

	2010 MNT'000	2009 MNT'000
Buildings	1,796,879	2,221,126
Office equipments and motor vehicles	118,879	322,320
Computers	-	42,304

10. Intangible assets

	2010 MNT'000	2009 MNT'000
Cost		
At 1 January	2,158,248	1,911,569
Additions	358,878	246,679
At 31 December	2,517,126	2,158,248
Amortisation		
At 1 January	1,357,529	928,479
Amortisation charge for the year	503,703	429,050
At 31 December 31	1,861,232	1,357,529
Carrying amounts		
At 31 December	655,894	800,719

Intangible assets only consist of purchased software and there were no capitalized borrowing costs related to the internal development of software during 2010 and 2009.

11. Foreclosed properties

	2010 MNT'000	2009 MNT'000
Industrial buildings	420,799	998,866
Apartment buildings	1,777,779	2,484,101
Less: Allowances	(1,221,233)	(1,383,620)
	977,345	2,099,347

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 Group's foreclosed properties based on time characteristics and makes allowances at the rates of 0%, 5%, 25%, 50% and 100% (2009: 1 %, 5%, 25%, 50% and 100%) for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. During 2010 and 2009, allowance of MNT 694,945 thousand and MNT 578,041 thousand were reversed upon disposition of foeclosed properties, respectively and foreclosed properties amounting to MNT 375,138 thousand and nil ,respectively, were written off against impairment losses.

12. Other assets

	2010 MNT'000	2009 MNT'000
Precious metals	31,151	806,627
Accrued interest receivables	11,013,254	5,139,452
Prepayments (*)	18,591,792	3,738,011
Inventory supplies	471,859	356,418
Other receivables, net	1,657,801	4,684,292
	31,765,857	14,724,800

Other receivables are presented net of impairment losses amounting to MNT 2,176,980,635 and MNT 897,540,969 as of 31 December 2010 and 2009, respectively.

(*)The Group 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 thousand). The Group 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. In addition, the Group prepaid USD 11 million for purchase of real property.

13. Deposits from customers

	2010 MNT'000	2009 MNT'000
Current accounts	343,163,179	240,142,168
Savings deposits	112,323,575	74,641,716
Time deposits	452,065,821	259,901,760
Other deposits	12,392,174	4,837,134
	919,944,749	579,522,778

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% (2009: 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 or approximately 2.4% and 6.0% (2009: 2.4% and 6.0%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 5.1% and 12.0% (2009: 7.2% and 14.5%), respectively.

14. Deposits and placements of banks and other financial institutions

	2010 MNT'000	2009 MNT'000
Current accounts deposits:		
Foreign currency deposits	53,507,922	3,671,770
Local currency deposits	783	341,673
Foreign currency cheques for selling	76,169	41,838
Deposits from banks	-	27,413,960
	53,584,874	31,469,241

15. Borrowings

Kreditanstalt fuer Wiederaufbau ("KfW")	2,792,307	2,156,584
World Bank	5,484,868	6,611,363
Asian Development Bank ("ADB")	118,068	141,956
International Development Association ("IDA")	691,118	810,497
Export-Import Bank of Korea ("KEXIM")	5,539,417	651,908
VTB Bank Austria ("VTB")	11,314,620	6,492,780
Export-Import Bank of the Republic of China ("EXIM")	50,287	62,523
Japan Bank for International Cooperation ("JBIC")	1,592,081	1,043,462
MG Leasing Corporation ("MGLC")	-	3,217,533
Atlantic Forfaitierungs AG ("AF")	2,357,213	2,524,970
Russian Agriculture Bank ("RHSB")	11,085,650	21,722,839
SME Project Fund MoF	6,115,000	2,736,000
Mongolian Mortgage Corporation ("MMC")	3,537,518	5,129,578
	50,678,147	53,301,993

Kreditanstalt fuer Wiederauflbau ("KfW")

The KfW loan amounting to EUR 1,662,117 (2009: EUR 1,041,154) 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

	2010 MNT'000	2009 MNT'000
Loan I	122,761	335,674
Loan II	5,362,107	6,275,689
	5,484,868	6,611,363

Loan I
Loan I comprises the following loans:

The World Bank Training Program loan amounting to USD 97,648 (2009: USD 137,648) is obtained via the Ministry of Finance in 2003 for the purpose of financing the Group'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 (2009: 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 2,789,280 (2009: USD 2,882,780) 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 (2009: 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 1,603 million (2009: MNT 2,015 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 200,830 (2009: USD 70,555) is obtained via the Ministry of Finance for the purpose of financing the Group'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 93,915 (2009: USD 98,387) is obtained via Bank of Mongolia for accounting information system upgrading purpose. The loan bears interest at a rate of 1% per annum (2009: 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 549,737 (2009: USD 561,737) is to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), where NBR had transferred operational knowledge and technical skills to the Group. The loan bears interest at a rate of 1% per annum (2009: 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 4,406,225 (2009: USD 451,823) 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 10 million and the interest of this particular loan varies with each drawdown, which is determined by KEXIM. The Group shall repay KEXIM the principal amount of each disbursement on the last day of each financing period. This line of credit is available until July 2012.

VTB Bank (Austria) AG ("VTB")

	2010 MNT'000	2009 MNT'000
Risk Participation III	11,314,620	6,492,780

The Group 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 Group 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 the Republic of China ("EXIM")

The EXIM loan amounting to USD 40,000 (2009: USD 43,333) 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 6 million. This particular loan bears interest at a rate of LIBOR 6 months USD rate + 0.25% per annum (LIBOR 6 months USD rate + 1.25% per annum). This line of credit is available until January 2012.

Japan Bank for International Cooperation ("JBIC")

The JBIC loan comprises the following loans:

(a) The JBIC USD loan amounting to USD 192,400 (2009: USD 30,400) 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 1,350.2 million (2009: MNT 999.6 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 to the tenor of loans granted to the various borrowers.

MG Leasing Corporation ("MGLC")

During 2009, the Group obtained a loan amounting to USD 2.23 million from MG Leasing Corporation to finance fund to purchase commodity. The loan was paid in full on 30 June 2010.

Atlantic Forfaitierungs AG ("AF")

The AF loan amounting to USD 1.88 million (2009: USD 1.75 million) is obtained for the purpose of relending to customers participating in plantation support fund. The loan expires on 5 and 16 September 2011.

Russian Agricuture Bank ("RHSB")

The credit line of USD 25 million was obtained by the Group 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 2010, the Group has utilised USD 8,817,870.

SME Project Fund MoF

The Group obtained a line of credit from Ministry of Food, Agriculture and Light industry for the purpose of SME development. Ministry of Food, Agriculture and Light industry budgeted MNT 30 billion for this facility which is available for all Mongolian commercial banks with no specific set amount allocated to individual bank basis. 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 Group has utilised MNT 6,115 million as at 31 December 2010.

Mongolian Mortgage Corporation ("MMC")

The Group 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 Group accounted for these transactions as collateralized financing. See note 6 for the details of the transactions.

16. Debt securities issued

	2010 MNT'000	2009 MNT'000
Debt securities issued, at amortized cost	173,280,281	59,639,556

On 5 January 2007, the Group 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 was paid in full as scheduled.
On 25 October 2010, the Group issued USD 150,000,000 senior notes due 25 October 2013 under its USD 300,000,000 EMTN Programme at a price of 99.353%. These bonds bear interest at 8.5% per annum payable semi-annually. The Group is also obligated to pay withholding tax for 5% of the amount of interest expenses paid to the investors on its senior notes in accordance with double tax treaty between Mongolia and Singapore and these additional cash outflows effectively increase real interest rate for the notes.

The Group repurchased USD 10 million of its senior notes in November 2010 which is treated as redemption of debt securities. Related redemption loss of MNT 280,589 thousand was recognized. The Group has not had any defaults of principal,interest or other breaches with respect to debt securities during 2010 and 2009. During 2010 and 2009, respective debt securities accreted by MNT 165,159 thousand and MNT 573,821 thousand, respectively, using effective interest method.

17. Subordinated debt securities issued

	2010 MNT'000	2009 MNT'000
Subordinated debt, at amortized cost	31,218,538	

On 16 November 2010, the Group issued USD 25,000,000 subordinated notes due 17 November 2015 under its USD 300,000,000 EMTN Programme at a price of 99.999%. These bonds bear interest at 12.5% per annum payable semi-annually. The Group is also obligated to pay withholding tax for 5% of the amount of interest expenses paid to the investors on its subordinated notes in accordance with double tax treaty between Mongolia and Singapore and these additional cash outflows effectively increase real interest rate for the notes. The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. During 2010, subordinated debt securities accreted by MNT 3,968 thousand using effective interest method.

The Group has not had any defaults of principal,interest or other breaches with respect to debt securities during 2010.

18. Other liabilities

	2010 MNT'000	2009 MNT'000
Accrued interest expense	16,183,804	13,546,305
Delay on clearing settlement	711,906	2,157,033
Other payables	3,137,302	1,879,390
Dividend payable	365,945	363,280
	20,398,957	17,946,008

19. Share capital

	2010 Number of ordinary shares	2009 Number of ordinary shares	2010 MNT'000	2009 MNT'000
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

At 31 December 2010 and 2009, 3,305,057 shares were issued and outstanding out of total 4,000,000 authorized shares. All issued shares are fully paid and have a par value of MNT 2,000.

20. Treasury shares

	2010 MNT'000	2009 MNT'000
At 1 January	6,456,232	6,456,232
Sale of treasury shares	(454,360)	-
At 31 December	6,001,872	6,456,232

On 21 December 2010, the Group sold 30,700 treasury shares at MNT 14,800 to US Global Investment LLC, its parent company.

Pursuant to an agreement dated 18 January 2007 between the Group 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

	2010 MNT'000	2009 MNT'000
Loans and advances	68,749,442	66,154,635
Investment securities	15,445,848	5,823,798
Deposits and placements with banks and other financial institutions	4,278,640	4,841,249
Bonds purchased under resale agreements	20,826	8,269
Subordinated loan	717,980	485,607
	89,212,736	77,313,558

22. Interest expense

	2010 MNT'000	2009 MNT'000
Deposits	50,654,319	30,226,102
Borrowings	4,090,307	5,445,728
Subordinated borrowings	-	971,599
Bonds sold under resale agreements	189,165	346,723
Debt securities issued	4,603,135	8,753,213
Subordinated debt securities issued	526,010	-
	60,062,936	45,743,365

23. Net fee and commission Income

	2010 MNT'000	2009 MNT'000
Fee and commission income		
Wire transfer	2,568,171	2,366,562
Card service	2,207,594	2,366,587
Loan related service	2,756,699	1,936,465
Others	434,039	375,536
Total fee and commission income	7,966,503	7,045,150
Fee and commission expenses		
Card service expense	961,604	891,526
Others	152,868	99,182
Total fee and commission expenses	1,114,472	990,708
Net fee and commission income	6,852,031	6,054,442

24. Other operating income

	2010 MNT'000	2009 MNT'000
Foreign exchange gain, net	9,434,706	5,907,730
Precious metal trading gain	84,495	55,657
Debt securities redemption loss	(280,589)	-
Other	38,693	91,603
	9,277,305	6,054,990

25. Operating expenses

	2010 MNT'000	2009 MNT'000
Staff costs	7,749,108	6,891,687
Technical assistance and foreign bank remittance fees	415,777	1,798,543
Depreciation on property and equipment (note 9)	1,970,047	1,575,531
Amortisation on intangible assets (note 10)	503,703	429,050
Write off for property and equipment	2,258	2,630
Professional fees	555,537	505,464
Insurance	632,195	204,978
Advertising and PR	1,306,091	738,955
Rental expenses	1,158,818	841,154
Business traveling	680,462	593,770
Cash handling	350,184	450,862
Stationery	393,178	467,251
Communication	600,325	766,953
Others	2,261,077	2,416,173
	18,578,760	17,683,001

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 for impairment losses

	2010 MNT'000	2009 MNT'000
Allowance for loan losses, net	(164,700)	(8,132,695)
Allowance for other assets and foreclosed properties, net	(1,560,660)	(293,594)
	(1,725,360)	(8,426,289)

27. Corporate income tax

	2010 MNT'000	2009 MNT'000
Income tax expense – current year		
Income tax expense – current year	4,277,777	2,598,784
Reconciliation of effective tax expense:		
Profit before tax	24,975,016	17,570,335
Tax at income tax rate of 25%	6,243,754	4,392,584
Tax effect of non-deductible expense	948,923	320,445
Tax effect of non-taxable income	(2,458,300)	(1,664,245)
Tax effect of progressive tax rate of 10% on the portion of taxable profits up to MNT 3 billion	(450,000)	(450,000)
Other	(6,600)	-
Income tax expense	4,277,777	2,598,784

According to Mongolian Tax Laws, the Group 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

	2010 MNT'000	2009 MNT'000
Dividends of equity holders	-	16,328,021

On 1 May 2009, the Group declared a dividend of MNT 5,460 per ordinary share amounting to MNT 16,328,021 thousand. There have been no dividend declared for the year ended 31 December 2009.

29. Segment reporting

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

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

In MNT'000

As at 31 December 2010	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment result							
External revenue							
Net interest income	51,514,760	3,105,115	(32,672,558)	(3,078,226)	14,593,111	(4,312,402)	29,149,800
Net fee and commission income	2,159,356	81,289	4,304,446	16,612	92,939	197,389	6,852,031
Other operating income (expense)	(24,031)	20,459	6,649,719	-	1,224,630	1,406,528	9,277,305
Intersegment revenue	(27,986,887)	(1,709,034)	46,456,472	3,175,821	(16,022,722)	(3,913,650)	-
Total segment revenue	25,663,198	1,497,829	24,738,079	114,207	(112,042)	(6,622,135)	45,279,136
	-	-	-	-	-	-	-
Operating expense	(320,913)	(174,843)	(6,686,539)	(156,106)	(523,717)	(10,716,642)	(18,578,760)
(Allowance) reversal for impairment losses	(1,771,705)	535,826	788,847	-	-	(1,278,328)	(1,725,360)
Profit before tax	23,570,580	1,858,810	18,840,387	(41,899)	(635,759)	(18,617,105)	24,975,016
Income tax expense							(4,277,777)
Profit for the period							20,697,239
Segment assets	368,880,416	18,888,908	106,574,231	1,083,675	593,867,694	249,585,145	1,338,880,069
Segment liabilities	19,304,243	-	817,987,675	176,095,265	160,461,217	75,257,147	1,249,105,547
Unallocated liabilities						1,481,973	1,481,973
Total liabilities	19,304,243	-	817,987,675	176,095,265	160,461,217	76,739,120	1,250,587,520
Depreciation and amortization	(2,796)	(869)	(1,067,756)	-	(20,994)	(1,378,333)	(2,473,751)
Capital expenditure	1,593	1,680	155,531	-	1,304	775,166	935,274

In MNT'000

As at 31 December 2009	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
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	8,861,547	-	512,823,430	62,013,300	106,189,653	51,991,646	741,879,576
Unallocated liabilities						1,343,586	1,343,586
Total liabilities	8,861,547	-	512,823,430	62,013,300	106,189,653	53,335,232	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

30. Significant transactions with related parties

The holding company of the Group is Globull Investment and Development (SCA), incorporated in Luxembourg and its ultimate holding company is US Global Investment LLC (US Global), incorporated in the United States of America. US Global is a consortium owned by Ulaanbaatar City Bank, Capitron Bank, Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Group). During 2010, Ulaanbaatar City Bank and Capitron Bank sold its ownership in US Global to Mr. Doljin and Central Asia Mining LLC, respectively and no longer related parties to the Group via ownership interest as of 31 December 2010. Capitron Bank still qualifies as a related party through ownership of shares by certain key management of the Group.

The Group also has a related party relationship with its executive officers and their immediate relatives.

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

	2010 MNT'000	2009 MNT'000
Ulaanbaatar City Bank		
During the year ended 31 December		
Interest income*	3,455,202	4,856,928
Interest expense*	(300,791)	(61,872)
Capitron Bank		
During the year ended 31 December		
Interest income*	525,816	1,258,192
Interest expense*	(42,900)	(6,793)
As at 31 December		
Deposits and placements with banks and other financial institutions	-	2,885,680
Deposits and placements of banks and other financial institutions	-	110,366
Subordinated loans	3,000,000	3,000,000
Reverse repurchase agreements	-	800,000

* Represents the amount incurred during the full years of 2010 and 2009, respectively.

	2010 MNT'000	2009 MNT'000
Executive officers		
During the year ended 31 December		
Interest income	123,326	59,981
As at 31 December		
Loans to executive officers	1,215,070	628,890

Interest rates charged on mortgage loans extended to executive officers are less than would be charged in an arm's length transaction. The mortgages granted are secured over property of the respective borrowers.

The loans to executive officers are included in loans and advances of the Group.

Total remuneration and employees benefit paid to the executive officers and directors for the year ended 31 December 2010 amounted to MNT 1,647,874 thousand (2009: MNT 1,303,391 thousand).

31. Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- Credit risks
- Liquidity risks
- Market risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group'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 Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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 Group's Representative Governing Board ("RGB") is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group'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 Group's credit policies and procedures, with credit approval authorities delegated from the Group'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 loans and investment securities with respective allowances at the reporting date was shown below.

In MNT'000

	Loans and advances		Investment securities	
	2010	**2009**	**2010**	**2009**
Carrying amount	464,466,630	406,214,658	260,735,448	90,300,363
Neither past due nor impaired	441,840,494	380,003,204	260,735,448	90,300,363
Individually impaired				-
In arrears	16,904,372	18,841,831		-
Non-qualitative loans:				
a) Substandard	3,677,058	1,407,122		-
b) Doubtful	7,618,378	14,512,828		-
c) Loss	8,430,152	6,572,275		-
Gross amount	478,470,454	421,337,260		-
Allowance for loan loss	(14,003,824)	(15,122,602)		-
Net carrying amount	464,466,630	406,214,658	260,735,448	90,300,363

*Loans included in this classification are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security /collateral available and/or the stage of collection of amounts owed to the Group.

31. Financial risk management, continued

(b) Credit risk, continued

Impaired loans and securities

Impaired loans and securities are loans and securities for which objective evidence demonstrates that a loss event has occurred after the intiail recognition of the assets and that the loss event has an impact on the future cash flows of the assets tha can be estimated reliably.

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

	2010 MNT'000			2009 MNT'000		
	Gross	Net	Fair value of collateral	Gross	Net	Fair value of collateral
In arrears	16,904,372	16,059,153	18,821,035	18,841,831	17,899,699	20,976,885
Substandard	3,677,058	2,757,793	7,941,407	1,407,122	1,055,341	5,301,999
Doubtful	7,618,378	3,809,189	10,171,200	14,512,828	7,256,414	24,959,200
Loss	8,430,152	-	18,797,633	6,572,275	-	17,314,194
	36,629,960	22,626,135	55,731,275	41,334,056	26,211,454	68,552,278

The Group 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 except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 or 2009.

The adverse economic conditions experienced in Mongolia in 2009 has improved substantially in 2010 as trade activity and foreign investment inflows related to mining increased dramatically and the country's foreign exchange reserves reached record levels. However, there has been pickup in the inflation rate which could adversely affect the economic recovery and growth rate. The ultimate collectability of the loans is subject 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 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 Group's financial statements.

31. Financial risk management, continued

(b) Credit risk, continued

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

	2010 MNT'000	2009 MNT'000
Agriculture	19,469,628	22,251,737
Mining and quarrying	73,163,350	62,751,263
Manufacturing	73,666,141	98,839,017
Petrol import and trade	47,721,926	17,882,104
Corporate-trading	69,706,606	52,082,932
Construction	71,830,777	90,892,424
Electricity and thermal energy	430,250	94,466
Hotel, restaurant and tourism	885,811	2,248,846
Financial services	250,085	257,728
Transportation	2,700,793	1,671,414
Health	2,416,299	3,765,036
Education	763,115	1,038,783
Mortgage	37,002,717	30,449,897
Payment card	30,362,475	10,840,582
Saving collateralized	17,940,526	3,370,184
Others	16,156,131	7,778,245
Total	464,466,630	406,214,658

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 Group. 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 Group respectively. The criteria for concentration of loan as at 31 December 2010 are as follows:

Description	Suitable ratios	31 December 2010	Differences
The loan and guarantee given to one borrower	<Eq 20%	18.17%	-
The loan and guarantee given to the single related party	<Eq 5%	0.15%	-
Total loans and guarantees given to the related parties	<Eq 20%	3.83%	-

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group'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 Group's reputation.

The Group is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Group'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 Group 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. Details of the reported ratio of net liquid assets to deposits from customers/banks at the reporting date were as follows:

	2010	2009
At 31 December	67%	47%

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

In MNT'000

As at 31 December 2010	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	49,351,824	-	-	-	-	49,351,824
Deposits and placements with banks and other financial institutions	273,434,020	-	-	-	-	273,434,020
Balances with Bank of Mongolia	79,820,367	-	-	-	-	79,820,367
Deposits with Bank of Mongolia	150,861,600	-	-	-	-	150,861,600
Investment securities	222,527,870	268,000	5,569,000	30,774,016	1,596,562	260,735,448
Loans and advances	40,980,440	29,821,296	132,533,616	228,588,167	32,543,111	464,466,630
Subordinated loans	-	-	-	7,000,000	-	7,000,000
Other assets	12,671,055	-	-	-	-	12,671,055
	829,647,176	30,089,296	138,102,616	266,362,183	34,139,673	1,298,340,944
Financial liabilities						
Deposits from customers	602,396,176	82,131,265	219,566,200	15,851,108	-	919,944,749
Deposits and placements of banks and other financial Institutions	53,584,874	-	-	-	-	53,584,874
Borrowings	8,656,916	727,550	6,571,988	28,312,092	6,409,601	50,678,147
Subordinated debt	-	-	-	31,218,538	-	31,218,538
Debt securities issued	-	-	-	173,280,281	-	173,280,281
Other liabilities	20,398,957	-	-	-	-	20,398,957
Issued financial guarantee contracts	73,427,994	-	-	-	-	73,427,994
Unrecognized loan commitments	45,236,892	-	-	-	-	45,236,892
	803,701,809	82,858,815	226,138,188	248,662,019	6,409,601	1,367,770,432
Net financial assets/(liabilities)	25,945,367	(52,769,519)	(88,035,572)	17,700,164	27,730,072	(69,429,488)

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
Financial assets						
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 agreements	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
Financial liabilities						
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
Issued financial guarantee contracts	32,807,809	-	-	-	-	32,807,809
Unrecognized loan commitments	30,276,702	-	-	-	-	30,276,702
	411,963,442	152,313,205	149,705,934	82,447,025	8,534,481	804,964,087
Net financial assets/(liabilities)	(43,036,617)	(108,975,768)	13,553,506	93,243,461	26,742,468	(18,939,950)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group'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 Group 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 Group'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 Group'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 Group's interest rate gap position on its financial assets and liabilities are as follows:

As at 31 December 2010

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
Financial assets								
Cash on hand	-	49,351,824	49,351,824	-	-	-	-	-
Deposits and placements with banks and other financial institutions	0.77	273,434,020	-	273,434,020	-	-	-	-
Balances with Bank of Mongolia	-	79,820,367	79,820,367	-	-	-	-	-
Deposits with Bank of Mongolia	0.09	150,861,600	-	150,861,600	-	-	-	-
Investment securities	9.47	260,735,448	1,596,562	222,527,870	268,000	5,569,000	30,774,016	
Loans and advances	14.51	464,466,630	-	40,980,440	29,821,296	132,533,616	228,588,167	32,543,111
Subordinated loan	9.93	7,000,000	-	-	-	-	7,000,000	-
Other assets	-	12,671,055	12,671,055	-	-	-	-	-
		1,298,340,944	143,439,808	687,803,930	30,089,296	138,102,616	266,362,183	32,543,111
Financial liabilities								
Deposits from customers	6.54	919,944,749	-	602,396,176	82,131,265	219,566,200	15,851,108	-
Deposits and placements of banks and other financial institutions	-	53,584,874	53,584,874	-	-	-	-	-
Borrowings	6.87	50,678,148	-	8,656,916	727,550	6,571,988	28,312,092	6,409,601
Subordinated debt securities issued	13.78	31,218,538	-	-	-	-	31,218,538	-
Debt securities issued	9.81	173,280,281	-	-	-	-	173,280,281	-
Other liabilities	-	20,398,957	20,398,957	-	-	-	-	-
		1,249,105,548	73,983,831	611,053,092	82,858,815	226,138,188	248,662,019	6,409,601
Net financial assets/(liabilities)		49,235,398	69,455,977	76,750,838	(52,769,519)	(88,035,572)	17,700,164	26,133,510

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
Financial assets								
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	1,409,818	84,190,544	-	-	326,144	4,373,857
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	97,416,327	272,453,316	43,337,437	163,259,440	175,690,486	33,867,131
Financial liabilities								
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	15,775,842	5,215,230	(136,389,728)	40,967,466	93,243,461	25,332,650

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Group'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
2010 At 31 December	121,671	127,671
2009 At 31 December	339,159	339,159

In MNT`000

	MNT denominated	2010 Foreign currencies	Total	MNT denominat ed	2009 Foreign currencies	Total
Financial assets						
Cash and hand	28,049,032	21,302,792	49,351,824	12,008,644	12,207,348	24,215,992
Deposits and placements with banks and other financial instruments	-	273,434,020	273,434,020	16,600,000	46,461,651	63,061,651
Balances and deposits with the Bank of Mongolia	36,131,526	194,550,441	230,681,967	37,298,773	142,408,344	179,707,117
Investment securities	260,735,448	-	260,735,448	90,300,363	-	90,300,363
Reversed repurchase agreements	-	-	-	799,556	-	799,556
Loan and advances	200,209,626	264,257,004	464,466,630	178,840,854	227,373,804	406,214,658
Subordinated loans	7,000,000	-	7,000,000	7,000,000	-	7,000,000
Other assets	7,346,519	5,324,536	12,671,055	10,955,425	3,769,375	14,724,800
	539,472,151	758,868,793	1,298,340,944	353,803,615	432,220,522	786,024,137
Financial liabilities						
Deposits from customers	440,274,228	479,670,521	919,944,749	287,845,392	291,677,386	579,522,778
Deposits and placement of bank and other financial institutions	27,033	53,557,841	53,584,874	359,205	31,110,036	31,469,241
Borrowings	12,505,774	38,172,373	50,678,147	10,879,678	42,422,315	53,301,993
Subordinated debt	-	31,218,538	31,218,538	-	-	-
Debt securities issued	-	173,280,281	173,280,281	-	59,639,556	59,639,556
Other liabilities	13,321,226	7,077,731	20,398,957	8,698,229	9,247,779	17,946,008
	466,128,261	782,977,285	1,249,105,546	307,782,504	434,097,072	741,879,576
Net financial assets/ (liabilities)	73,343,890	(24,108,492)	49,235,398	46,021,111	(1,876,550)	44,144,561

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group'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 2010 and 2009 would have increased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	10 percent strengthening MNT'000
2010 At 31 December	2,410,849
2009 At 31 December	187,655

At 10 percent weakening of the MNT against the USD at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

(e) Capital Management

The Group's regulator, Bank of Mongolia, sets and monitors capital requirements for the Group as a whole. The Bank of Mongolia requires the Group 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 borrowings 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 Group'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 Group 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 Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year.

The suitable ratios of the Group's capital adequacy as at 31 December 2010 and 2009, respectively, were as following:

	2010 MNT'000	2009 MNT'000
Tier I Capital		
Share capital	6,610,113	6,610,113
Share premium	7,392,191	7,392,191
Treasury shares	(6,001,872)	(6,456,232)
Retained earnings	66,873,841	45,911,554
Adjustment	-	(544,826)
	74,874,273	52,912,800
Tier II Capital		
Revaluation reserve	13,418,276	13,683,324
Subordinated debt	31,218,538	-
	44,636,814	13,683,324
Total Tier I and Tier II capital	119,511,087	66,596,124

Breakdown of risk weighted assets as follows:

	2010 MNT'000	2009 MNT'000
Risk weighted factor (%)		
20	42,476,431	12,001,746
35	-	1,645,000
50	44,116,891	30,115,985
100	582,218,086	456,190,828
150	40,874,390	-
Foreign currency exposure (*)	24,108,494	23,213,724
	733,794,292	523,167,283

Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	16.29%	12.73%
Total tier I capital expressed as a percentage of riskweighted assets ("TCAR")	10.20%	10.11%

* On 30 October 2008, the Group'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 Group 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.

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

The Group 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.

	Note	Carrying amount 2010 MNT 000	Fair value 2010 MNT 000	Carrying amount 2009 MNT 000	Fair value 2009 MNT 000
Financial assets					
Cash on hand	4	49,351,824	49,351,824	24,215,992	24,215,992
Deposits and placements with banks	4	504,115,987	504,115,987	242,768,768	242,768,768
Investment securities	5	260,735,448	260,680,153	90,300,363	90,300,363
Loans and advances to customers	6	464,466,630	478,965,440	406,214,658	421,473,566
Reverse repurchase agreements	7	-	-	799,556	799,556
Subordinated loans	8	7,000,000	7,000,000	7,000,000	7,000,000
Other assets	12	12,671,055	12,671,055	14,724,800	12,282,483
		1,298,340,944	1,312,784,459	786,024,137	798,840,728
Financial liabilities					
Deposits from customers	13	919,944,749	906,916,013	579,522,778	570,583,337
Deposits and placements of banks and other financial institutions	14	53,584,874	53,584,874	31,469,241	31,469,241
Borrowings	15	50,678,147	50,678,147	53,301,993	53,301,993
Subordinated debt		31,218,538	31,822,526	-	-
Debt securities issued	16	173,280,281	177,113,446	59,639,556	59,639,556
Other liabilities	17	20,398,957	20,398,957	17,946,008	17,946,008
		1,249,105,546	1,240,513,963	741,879,576	732,940,135

33. Commitment and contingent liabilities

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

The Group 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 Group 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 date of statements of financial position if counterparties failed completely to perform as contracted.

	2010 MNT'000	2009 MNT'000
Letters of credit and guarantees	73,427,994	32,807,809
Loan and credit card commitments	45,236,892	30,276,702

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.

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	IMBKRUMM		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	IMBKRUMM	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
1	Absolut Bank	
2	Agricultural Bank of China, China	China
3	Alliance Bank	Kazakhstan
4	Asian Development Bank (ADB)	Philippines
5	Asian-Pacific Bank	Russia
6	Atlantic Forfaitierungs AG	Switzerland
7	Bank Austria Creditanstalt AG	Austria
8	Bank CenterCredit	
9	Bank of America	China
10	Bank of Ceylon	Sri Lanka
11	Bank of China Ltd	China
12	Bank of Communications Co. Ltd	China
13	Bank of New York Mellon	USA
14	Bank of Tokyo-Mitsubishi UFJ Ltd	Japan
15	Bank TuranAlem	Kazakhstan
16	Barclays Capital	Singapore
17	BHF Bank	Germany
18	BNP Paribas SA	France
19	Caspian Bank	
20	Center Credit Bank	
21	Ceskoslovenska obchodni banka, a. s.	Czech Republic
22	China Construction Bank Ltd, China	China
23	China Export and Credit Insurance Corporation (Sinosure)	China
24	Citibank N.A	USA
25	Commerzbank AG	Germany

No.	Bank Name	Country
26	Credit Suisse	Switzerland
27	Danske Bank AS	Sweden
28	Deutsche Bank AG	Germany
29	DZ Bank AG	Germany
30	European Bank for Reconstruction and Development (EBRD)	United Kingdom
31	EXIM Bank	Hungary
32	Export-Import Bank of Korea	Korea
33	Export-Import Bank of the Republic of China	Taiwan
34	Gazprombank	Russia
35	Halyk Bank	Kazakhstan
36	Hana Bank	Korea
37	Hang Seng Bank Ltd	Hong Kong
38	Hong Kong and Shanghai Banking Corporation Ltd	New Zealand
39	HSBC Bank Australia Ltd	Australia
40	HSBC Bank Canada	Canada
41	HSBC Bank PLC	United Kingdom
42	HSBC Bank USA	USA
43	ImpexBank	
44	Industrial and Commercial Bank of China Ltd	China
45	ING Bank	Belgium
46	International Bank for Economic Cooperation (IBEC)	Russia
47	International Finance Corporation (IFC)	USA
48	INTL Global Currencies Ltd	United Kingdom
49	Japan Bank for International Cooperation (JBIC)	Japan

INTERNATIONAL RELATIONSHIPS

No.	Bank Name	Country
50	JP Morgan Chase Bank NA	USA
51	KBC Bank NV	Belgium
52	KfW Bankengruppe	Germany
53	Kookmin Bank	Korea
54	Korea Development Bank	Korea
55	Korea Exchange bank	Korea
56	LandesBank Berlin	Germany
57	Man group	USA
58	MasterCard International Incorporated	USA
59	MDM Bank	Russia
60	MIK	Hungary
61	Mizuho Corporate Bank Ltd	Japan
62	Nadra Bank	
63	Natexis Banque Populaires	Singapore
64	Nordea Bank AB	Sweden
65	OCBC Bank	Singapore
66	Petrocommerce bank	
67	Rabobank	Singapore

No.	Bank Name	Country
68	Raiffeisen Zentralbank Oesterreich AG (RZB)	Austria
69	Russian Agricultural Bank	Russia
70	Saxo Bank A/S	Denmark
71	Sberbank	Russia
72	Shinhan Bank	Korea
73	Sotsekonom Bank	Russia
74	Standard Bank	England
75	Standard Chartered Bank	South Africa
76	Sumitomo Mitsui Banking Corp.	Japan
77	UBS AG	Switzerland
78	Unicredit Bank	Russia
79	Visa International	USA
80	VTB Bank	Russia
81	VTB Bank Austria AG	Austria
82	Wells Fargo Bank NA	USA
83	Woori Bank	Korea
84	World Bank	USA

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