ANNUAL REPORT 2011




TDB
TRADE & DEVELOPMENT BANK

YOUR INEVITABLE
BUSINESS PARTNER

CONTENTS

MESSAGE FROM THE PRESIDENT

“2011 was a year of high economic growth for Mongolia, as the GDP growth reached a historical high of 17.3 percent from the 6.4 percent of 2010. In addition, the drop in unemployment rate from 13 percent in 2010 to 9 percent in 2011 was another positive result. The main factors of this economic growth were accelerated by growth in the mining industry and foreign direct investment.”

Dear customers, partners, ladies and gentlemen,

Trade and Development Bank is pleased to present you the Bank's main achievements and financial results achieved in 2011, a period of rapid economic growth. 2011 was a year of high economic growth for Mongolia, as the GDP growth reached a historical high of 17.3 percent from the 6.4 percent of 2010. In addition, the drop in unemployment rate from 13 percent in 2010 to 9 percent in 2011 was another positive result. The main factors of this economic growth were accelerated by growth in the mining industry and foreign direct investment.

Moreover, Mongolia's total money supply in circulation increased by 37.3 percent and total loans in banking sector grew by 72 percent in 2011, while total liabilities increased by 36.5 percent compared to that of 2010. Total banking assets surged to MNT 9.4 trillion in 2011, constituting 86 percent of GDP, a significant indicator of the strong position of Mongolia's banking and finance sector. It was another positive outcome that non-performing loans in the banking sector decreased by 11.9 percent in 2011 compared to the previous year.

The fiscal year of 2011 was a remarkable year full of achievements for TDB. Our Bank's total assets reached MNT 2090.2 billion, equity MNT 139.4 billion, and profit after tax reached MNT 42.1 billion. Our bonds issued and successfully traded on international markets in 2007 and 2010, becoming the first among Mongolia's commercial banks and corporations, had become a big milestone that introduced TDB's stable operations and reputation on the international markets.

Thus, we have been continuously expanding our cooperative relations with large and reputable international organizations and institutions. A noteworthy example is that TDB signed a cooperation agreement with Bloomberg L.P. of the United States and established TDB Media LLC, to broadcast Bloomberg TV channel with official translations as well as news programs on domestic financial and economic events. It has become a big and timely step when large numbers of international investors are paying considerable attention to the economic situation and prospects of Mongolia with regard to the fast-paced economic development.

In 2011, TDB made substantial efforts to expand its relations with over 150 international banks, financial institutions, and other new financial institutions. We opened accounts with Bank of China's Hong Kong Branch, VTB Moscow, CitiBank, Unicredit Moscow, as well as Renaissance Securities and signed "Import Finance Facility Agreement" with Agricultural Bank of China, Baoshang Bank, and "Master Agreement on Trade Finance Facilities" with Commerzbank of Germany, enhancing import financing opportunities with China and European Union countries. In 2011, TDB performed 48 percent of Mongolia's total foreign transactions alone and it is our advantage that we deliver comprehensive international standard banking services to our clients.

In addition, one of the noteworthy highlights of 2011 was that we opened a subsidiary of our Bank, TDB Capital LLC. At this time when every citizen of Mongolia has been given opportunity to benefit from natural resources of the country thanks to rapid economic growth and development of mining sector, TDB Capital LLC launched its operations aiming to make its contribution to the capital market of Mongolia, leveraging its 20 years of experience, reputation on international markets, networks, and its leading position on the domestic market.

I would like to express my sincere gratitude to all our esteemed customers, deposit holders, international and domestic partners for their continuous support and cooperation during the historic period of our success. We believe that 2012 will be another remarkable year full of success and achievements not only for TDB, but also for Mongolia. Trade and Development Bank, the oldest commercial bank in Mongolia will be your trusted financial partner with its 20 years of rich experience. We wish all our partners and customers rising profits and a prosperous life!

Randolph Koppa
President

FINANCIAL HIGHLIGHTS

MNT billion

Assets :	2011	2010	2009	2008	2007
Cash and cash equivalents	475.0	553.5	267.0	140.8	110.4
Investment securities	350.0	260.7	90.3	38.8	46.4
Loans and advances	1,123.3	464.5	406.2	440.3	382.3
Reverse repurchase agreements	37.0	0.0	0.8	0.0	0.0
Subordinated loans	7.0	7.0	7.0	4.0	4.0
Property and equipment	79.1	19.8	21.4	21.8	11.7
Intangible assets	0.4	0.7	0.8	1.0	1.0
Foreclosed properties	0.6	1.0	2.1	0.3	0.6
Other assets	17.6	31.8	14.7	12.3	7.1
Total assets	2,090.0	1,338.9	810.4	659.3	563.5
Liabilities:					
Deposits from customers	1,277.3	919.9	579.5	374.5	373.0
Deposits and placements of banks and other financial institutions	206.5	53.6	31.5	33.5	15.3
Borrowings	174.4	50.7	53.3	59.0	7.4
Current tax payables	1.5	1.5	1.3	0.5	1.5
Debt securities issued	207.1	173.3	59.6	94.5	86.7
Other liabilities	42.1	20.4	17.9	18.7	10.1
Subordinated borrowings	41.7	31.2	0.0	10.1	9.4
Total liabilities	1,950.6	1,250.6	743.2	590.8	503.2
Share capital	8.0	8.0	7.5	7.5	8.2
Revaluation reserves	22.4	13.4	13.7	13.7	4.8
Retained earnings	109.0	66.9	45.9	47.3	47.3
Total shareholder's equity	139.4	88.3	67.1	68.5	60.3
Total liabilities and shareholders' equity	2,090.0	1,338.9	810.4	659.3	563.5

Income Statements

MNT billion

	2011	2010	2009	2008	2007
Interest income	143.5	89.2	77.3	71.2	47.3
Interest expense	(95.4)	(60.1)	(45.7)	(33.6)	(26.7)
Net interest income	48.1	29.1	31.6	37.6	20.6
Net fee and commission income	12.1	6.9	6.1	7.0	6.3
Other operating income (expense)	14.3	9.3	6.1	(7.0)	4.1
Net non-interest income	26.4	16.1	12.1	0.0	10.4
Operating income	74.5	45.3	43.7	37.6	31.1
Operating expenses	(20.1)	(18.6)	(17.7)	(15.9)	(13.7)
Allowance for impairment losses	(3.1)	(1.7)	(8.4)	(1.8)	2.6
Profit before tax	51.4	25.0	17.6	19.9	19.9
Corporate income tax	(9.3)	(4.3)	(2.6)	(3.6)	(3.6)
Net profit for the year	42.1	20.7	15.0	16.3	16.4

MNT billion

	2011	2010	2009	2008	2007
Profitability					
Cost Income Ratio	26.9%	41.0%	40.5%	42.2%	44.1%
Net interest Margin	3.5%	3.3%	4.1%	5.8%	4.5%
ROE	30.2%	23.4%	22.3%	23.8%	27.2%
ROA	2.0%	1.5%	1.8%	2.5%	2.9%
Growth rate					
Asset growth	56.1%	65.2%	22.9%	17.0%	32.2%
Loan growth	141.9%	14.3%	-7.7%	15.2%	59.2%
Deposit growth	38.8%	58.7%	54.8%	0.4%	14.9%
Capital growth	57.9%	31.5%	-2.0%	13.7%	21.3%
Asset quality					
Loans to deposit ratio	89.3%	52.0%	72.7%	117.6%	102.5%
Loans to asset ratio	53.7%	34.7%	50.1%	66.8%	67.8%
Liquidity Ratio	43.0%	67.0%	47.0%	37.0%	26.0%
Capital:					
Ter 1 Capital Adequacy Ratio	8.2%	10.2%	10.1%	10.2%	11.0%
Capital Adequacy Ratio	12.7%	16.3%	12.7%	14.7%	13.8%

As of 31 December 2011 bank's total loan outstanding reached MNT 1,123.3 billion which showed increases of MNT 658.9 billion or 141.9 percent compared to the same period of 2010. The main drivers of the above positive results were massive increases of banking sector funding bases and rapid economic growth from the end of 2010 through 2011. In the financial year of 2011 TDB has strongly supported its lending management activities and has opened numerous branches and settlement centers all over the country.

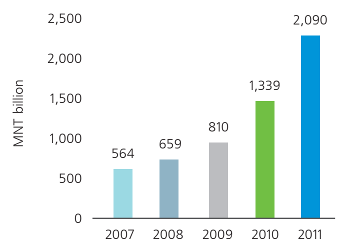
Moreover the total liabilities and capital of the Bank reached MNT 2,090.0 billion, an increase of 56.1 percent or MNT 751.2 billion compared to the end of the previous year. Liabilities and capital of the Bank were consisting of as follows: Deposits from customers 61.1 percent, deposits from banks 9.9 percent, loans from banks 8.3 percent, bond 9.9 percent, other liabilities 2.0 percent and capital funds 6.7 percent.

The net profit reached MNT 42.1 billion and the growth was MNT 21.4 billion or 103.4 percent comparing with end of 2010. Due to sharply growing loan outstandings the interest income of current year was increased by MNT54.3 billion or 60.9 percent comparing with 2010.

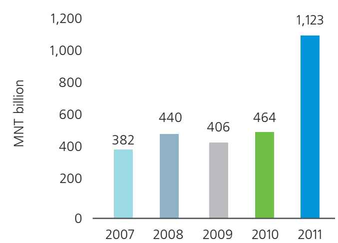
In addition the Bank's net non-interest income reached MNT 26.4 billion, an increase of MNT 10.3 billion or 63.6 percent comparing with the previous year.

Due to domestic economic development and market growth the Bank's fees and commissions income increased massively.

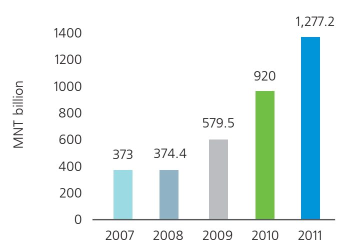
Total assets



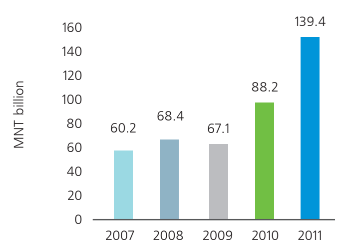
Loans and advances



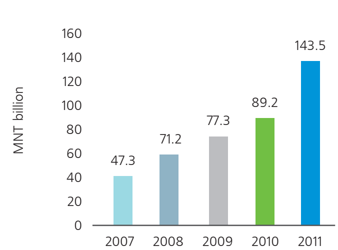
Deposits from customers



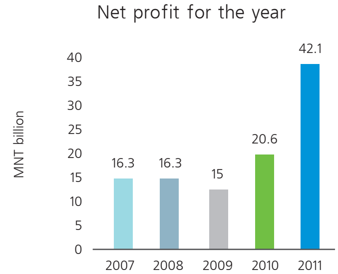
Total shareholder's equity



Interest income



Net profit for the year



THE WORLD IS HEADING TO MONGOLIA ...

... to profit from vast opportunities in one of the fastest growing economies in the world, fueled by its massive mining projects.

Trade and Development Bank of Mongolia, the country's premier corporate and international bank, the first Mongolian issuer of bonds on the international capital markets, is here to cooperate with you to meet your investment goals.

Your inevitable business partner in Mongolia, Trade and Development Bank of Mongolia.

MESSAGE FROM THE CEO

"In 2011, TDB maintained its position as a leading Mongolian bank by demonstrating achievements in the growth of total net profit, which reached MNT 42.1 billion as of the year-end, a 103.4 percent increase from the previous year. In the reporting year, the total deposits amounted to MNT 1,277.3 billion, increasing by 38.8 percent from the previous year. Besides recording positive financial results in 2011, the Bank has been continuously developing and improving its business activities on a high level."

Dear customers, business partners, shareholders and colleagues,

In 2011, TDB maintained its position as a leading Mongolian bank by demonstrating achievements in the growth of total net profit, which reached MNT 42.1 billion as of the year-end, a 103.4 percent increase from the previous year. In the reporting year, the total deposits amounted to MNT 1,277.3 billion, increasing by 38.8 percent from the previous year. Respectively, the total loan portfolio surged by 141.8 percent amounting to MNT 1,123.3 billion, the number of total savings depositors grew by 32 percent reaching 80 thousand, and the number of total large corporate clients rose by 15 percent to over 400. Besides recording positive financial results in 2011, the Bank has been continuously developing and improving its business activities on a high level.

TDB kept its flexible and expansionary loan policy, offering all types of loan products and services with the most favorable commission and interest rates and other competitive terms and conditions to satisfy the personal needs of individuals and the demands and needs of small businesses. As a result, the loan portfolio has been increased 3.8 times from the previous year, and the Bank took the leading position in the banking sector in terms of growth of retail loan portfolio.

The Bank has operated proactively to increase the financial capacity of its corporate clients and to expand their business activities, and has been offering flexible terms and conditions on loan products that correspond to the peculiarities of their businesses. Thus, the total corporate loan portfolio increased by 126.0 percent.

To support small and medium enterprises (SME), the Bank successfully continued the implementation of the mid- and long-term investment loan programs, such as the Japan International Cooperation Agency's Two-Step Loan Project for "SME Development and Environmental Protection-II", the World Bank "Private Sector Development Loan Project-II", the German KFW "SME Loan Program" and the Ministry of Food, Agriculture and Light Industry's "SME Development Fund". As a result, the total SME loan portfolio reached MNT 62.5 billion. From a number of new steps that have been taken in the card business, we highlight the launching of "MT" and "M-Oil" fuel cards in the market, designed for individuals and institutions possessing automobiles.

TDB also rewarded its customers by introducing the prepaid "Gift card" to the market. Moreover, the Bank accomplished the necessary preparatory works in the framework of the "Most Money" project to make it possible to make payments, execute transactions and withdraw cash using a mobile phone. In 2011, we offered all our customers, including the holders of current, savings and card accounts, the Mobile banking service in two options of WAP and JAVA that are based on the mobile internet technology.

As the oldest and leading bank in the market, TDB supports young graduates who are the future of Mongolia and increased the number of personnel in 2011 by 25.9 percent, creating over 380 new jobs. As a large number of young people joined the Bank, people under the age of 35 constitute over 80 percent of total employees. The Bank's products and services have been brought even closer to the customers by opening ten new branches and settlement centers in the most populated districts of the capital city, and four branch units in Darkhan, Erdenet, Khutul and Dalanzadgad cities. As a leading bank with regards to social responsibility, TDB provided donations and sponsorship worth MNT 1.5 billion to all social strata in need of funds, for the well-being and bright future of the society.

The past year has been a year of rapid expansion for the Bank's scope of activities and services. Thus, I would like to express my gratitude and appreciation to all our customers, including individuals, domestic and international corporate clients, as well as our business partners for their continuous cooperation and loyalty, all of which have helped us make these achievements. Having led the market for 21 years without losing your trust, TDB will operate with sensitivity and flexibility to fit the demands and needs of its customers and improve the quality of its products and services, while aiming to deliver advanced technologies of e-products in a comprehensive way thus fortifying its market position and increasing its market share, and will remain your trusted financial partner in 2012.

B.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 rating (December 2011)

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

MONGOLIAN ECONOMIC AND BANKING SECTOR REVIEW FOR 2011 AND ECONOMIC PROSPECTS FOR 2012

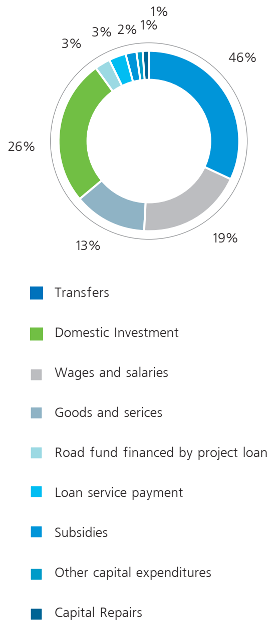
Real sector

It was a historic performance that the economy of Mongolia grew rapidly and real GDP growth jumped to 17.3 percent in 2011. In this growth, 42.5 percent was provided by wholesale and retail trade sector, 16 percent by manufacturing, 14.3 percent by construction, and 8.7 percent by mining and quarrying sector. The high growth of wholesale and retail trade sector reflects consumption growth boosted by increased money supply and government expenditures, which increased by 56 percent in 2011, swelling domestic demand. In addition, 73 percent growth in domestic bank loans reveals rising domestic demand. Moreover, the government expenditures are expected to grow by 32 percent in 2012. During this period of high economic growth, prolonged high demand for money, loans and increased capital inflow from foreign markets are anticipated.

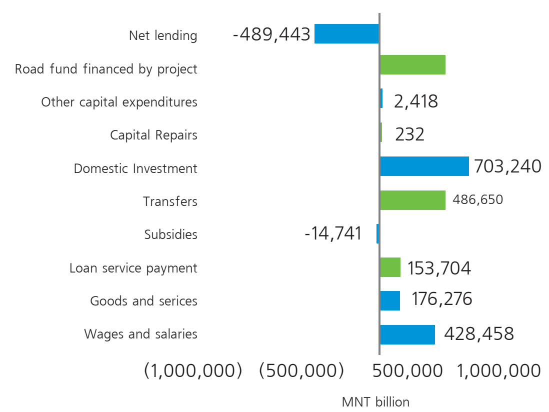
State budget

Total government spending for 2012 was approved with an increase of 32 percent from the previous year or nominally MNT 6,467 billion according to the budget amendment 2012. Almost 60 percent of the total growth is comprised of MNT 428 billion payroll, MNT 486 billion operational transactions which are connected with the decision to increase compensation and pension of public officers in two phases. Moreover, budget for investment comprises quite a large portion, or 46 percent, of the budget of 2012, which is connected with the budgeted investment of USD 1 billion included in the expenditures to improve the network of roadways and railways necessary for exploiting Mongolia's underground mineral resources and bring them to the market. The expansionary fiscal policy being adhered in 2012, in particular, the increased recurrent expenses including payroll, pension, and welfare expenses, tend to increase the signs of overheating that are normally seen during a high economic growth period.

State budget structure in 2012



State budget growth structure in 2012



Trade sector

Trade sector has shown significant growth in the past two years with 39.3 percent growth in 2010 and 42.5 percent in 2011. As of 2011, wholesale and retail trade sector constitutes 11.3 percent of GDP. If such measures as fiscal expansionary policy that encourages consumption continue to be taken in Mongolia which has consumption based economy, this sector is likely to experience another high growth in 2012.

Construction sector

Construction sector growth was also soaring resulting in 14.3 percent annual growth in 2011. The growth of mortgage loans promoted construction sector considerably contributing to the sector to boost. Although commercial banks have raised their mortgage loan interest rates in connection with the increase of Central bank's policy rate, demand for mortgage loan is unlikely to decline. Even though the plan to start disbursing mortgage loans at 6 percent interest rate to citizens within the framework of Government's "100,000 Housing Program" is influencing the demand to surge, measures regarding the supply of apartments are being left behind so that it is unlikely for apartment prices to drop in short term.

Petroleum sector

It can be seen from statistics that mining sector consumes substantial portion of Mongolia's total petroleum product consumption. The rapid growth of mining sector is anticipated to increase the demand of petroleum. In 2012, industrial recovery of the Middle East and the shrinking consumption of United States and Europe are likely to contribute to the price of crude oil to decline on global markets while China and India's need for energy and the economic sanctions against Iran might influence the crude oil price to rise, which will impact the price level of Mongolia's petroleum import.

Mining sector

The mining sector of Mongolia constitutes 20 percent of GDP and grew 8.7 percent in 2011. In late 2011, import of mining equipment increased significantly contributing to foreign trade deficit. Oyu Tolgoi project is planned to be put into exploitation in the first half of 2013 and it is estimated that the total investment would be USD 6 billion. As of the end of 2011, investment of USD 3.5 billion had been made, and USD 2.5 billion investment is going to be made in 2012. As of the first half of 2011, coal comprises 36.9 percent, copper concentrate 25.2 percent, and iron ore comprises 9.5 percent of total export, which denote the high dependency of economic growth on mining sector. Export to China constitutes 90 percent of Mongolia's total export. The Chinese economic growth is anticipated to decelerate in 2012 within its policy framework, which might have influence on the mining sector and the economic growth of Mongolia. According to the International Energy Agency (IEA) report, energy and coal demand of countries including China and India is expected to increase significantly and the world coal consumption will soar to reach 5,850 million tons a year in 2020. China consumed 3.2 billion tons of coal in 2010 and China National Development and Renovation Committee adheres to a policy to limit coal consumption to less than 3.8 billion tons a year. In this framework, Five Year Plan 2011-2015 was adopted and issues of consuming more eco-friendly sources of energy were stipulated in the plan.

Gold

Gold price hit USD 1,895 in 2011 to its all time high. Gold price has been steadily increasing since 2010. Due to the vulnerability of world economy, particularly the demand from investors to place their funds in gold in order to prevent from value dropping, gold price hit its peak. Moreover, in case the euro zone debt crisis persists in 2012, gold price is unlikely to drop and this will provide an advantage for Mongolia increasing its export revenue.

Copper

In January and February 2011, copper price surged and reached new peaks but dropped in April and May due to China's inflation and strengthening USD. China's tightened credit policy in addition to the fact that country's electrical and copper wire producers and buyers halted their purchase primarily impacted the price drop. Although copper price started to go up again until August 2011, the sales stagnated in the last several months caused by the debt crisis of European countries which make up 19 percent of the world copper consumption. It is projected that the world copper consumption would increase by 2.7 percent in 2012. It will not increase as fast as that of 2009-2010 and shortage is likely to occur on copper market in 2012 as supply lags. In case of Mongolia, copper supply can be maintained at a proper level to stimulate foreign trade turnover and increase budget revenue.

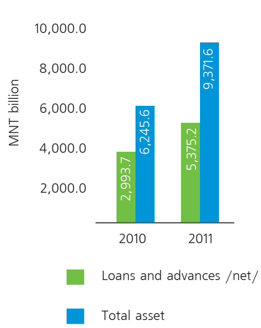
Banking sector

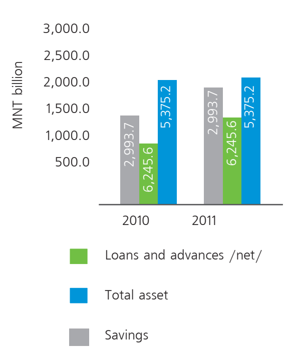
In parallel with the country's economic indicators, banking sector had also achieved significant growth. Total banking assets reached MNT 9.4 trillion in 2011 with 50.1 percent year-on-year growth or nominally MNT 3.1 trillion. Total loan portfolio (net) reached MNT 5.4 trillion with 79.6 percent y-o-y growth or nominally MNT 2.4 trillion. Net loans to total assets ratio, which stood at 48 percent by the end of 2010, reached 57.4 percent. The amount of non-performing loans dropped to MNT 326.8 billion (stood at MNT 370.5 billion in 2010) or by 11.7 percent from the previous year. Non-performing loans to total loans decreased to 5.8 percent from 11.5 percent in previous year denoting improved loan quality.

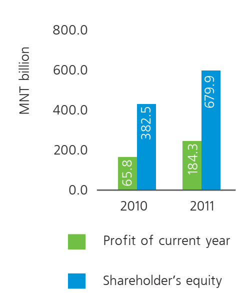
Source: BOM

Sector wise, as of the end of 2011, current, demand deposit, and term deposit accounts rose 30%, 37%, and 41% respectively in nominal value of MNT 459 billion, MNT 337 billion, and MNT 737 billion reaching MNT 1,981 billion, MNT 1,238 billion, and MNT 2,520 billion respectively compared to the previous year end.

In 2011, the annual profit of banking sector grew 180 percent y-o-y or nominally MNT 118.5 billion and reached MNT 184.2 billion while total equity reached MNT 677 billion with annual growth of 77 percent or nominally MNT 294.4 billion. It can be seen from the performances of previous years that banking sector achieves significant growth as the economy expands. Therefore, the banking sector is expected to grow at a minimum of 30 percent in 2012 in connection with the country's economic growth; in particular resulting from growth in mining exploitations, revenue derived from mining, and budget expansion etc. Furthermore, commercial banks have the opportunity to start clearing and custodian banking services pertaining to the reform of Mongolian Stock Exchange. In April 2012, TDB has become the first clearing bank to provide securities clearing services in Mongolia.







ACTION PLAN FOR 2012

Trade and Development Bank will maintain and increase its market share by meeting customers' demand more flexibly and improving its customer service, cross selling and profitability.

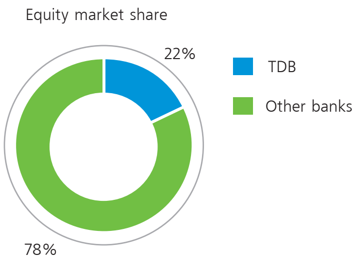
The Bank plans to implement the "TDB culture" program for employees in order to reach above mentioned goals and to have knowledgeable, skilled and right attitude people.

Enhanced and dedicated customer service to the existing corporate banking customers will be offered and new customers from other growing industry sectors will be attracted with more competitive and flexible conditions. The Bank will continue and expand its trade finance business line together with internationally recognized banks by offering syndicated loan and other favorable trade finance conditions.

Branch network and other types of channels will be increased in retail banking business line and necessary preparation works for the packaged electronic banking products and service offering will be implemented in 2012. An advanced level control and risk management works are planned in 2012 to support the business expansion.

BUSINESS PROFILE

TDB was incorporated as the first commercial bank in a historical time when a two-tier banking system was established in Mongolia in 1990. Since the time of its establishment, TDB, the oldest bank in the banking sector of Mongolia, has been offering its customers over 100 types of international standard banking products and services promptly through its network of 45 branches and settlement centers, and is still maintaining its position of a leading Mongolian bank in the domestic and international markets. TDB has been the reliable business and financial partner for large local and international corporations which conduct their activities in the key economic sectors and make their own contribution to the rapid growth of the country's economy, as well as for foreign investors, and continues to deliver the desired comprehensive financial services at a high quality level.

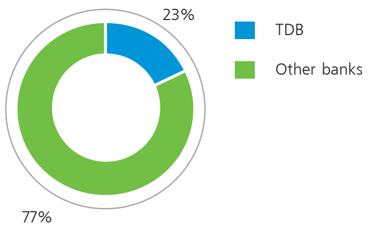


As the leader in the Mongolia's banking and finance market, TDB offers large corporate entities, small and medium entrepreneurs and thousands of individuals, the most up-to-date, integrated banking products and services that fully correspond to the international standards, including all types of mid- and long-term financing for support of businesses, trade and services, private banking services designed for individual customers, cash management, foreign exchange and international payment services. Based on the established long-standing relationship with its customers, the Bank cooperates with over 100 reputable international banking and finance institutions in order to actively participate in syndicated lending with major international financial institutions and increase the credit lines.

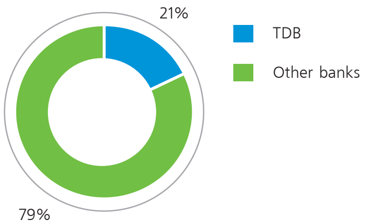
TDB was the first bank in Mongolia to receive investment from the Asian Development Bank and the International Finance Corporation. In 2006, the Bank became the first ever commercial bank in the country to be rated by Moody's Investors Service. Based on the Moody's rating which approved the Bank's operations as stable, TDB has successfully issued USD 75 million senior unsecured bond into the international financial market within the USD 300 million Euro Medium Term Note (EMTN) Program, and thus became the first corporation in Mongolia to tap the international capital markets. The senior unsecured foreign currency note issue was rated Ba2 by Moody's Investors Service. In spite of global economic crisis, TDB was able to pay the bond prior to its maturity. In October 2010, the Bank has successfully launched an issue of USD 175 million senior unsecured notes in the framework of the USD 300 million Euro Medium Term Note (EMTN) Program. USD 25 million of it was issued in a form of subordinated notes for a term of 5 years, which became the first ever issuance of subordinated notes from a Mongolian corporation into the international capital market. The second issue bond was bought by a total of 69 investors, including assets managers constituting 42%, private banking accounts 25%, hedge funds 18% and other financial institutions 11%.

TDB has been successfully implementing the financing programs in cooperation with reputable large international banking and financial institutions, thus significantly contributing to the economic growth of Mongolia. Major accomplishments of TDB have been valued highly. The Bank held the distinction of the "Best Bank in Mongolia" by "The Banker" magazine two times, was awarded the "Leading Bank in Mongolia", the "Socially Responsible Business Entity" and the "Best Tax Payer" by the Government of Mongolia and other local and international organizations. Moreover, TDB received the award by the "VISA International" four times, the "Best Trade Finance Bank in Mongolia" award by the "Global Trade Review" magazine, and the "Investment envoy" award by Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA). As of December 31, 2011, the total assets of TDB increased to MNT 2,090.0 billion and the equity reached MNT 139.4 billion, constituting 22.3 percent and 27.3 percent of the total banking market, respectively. The profit after tax amounted to MNT 15.0 billion in 2009, MNT 20.7 billion in 2010, and grew to MNT 42.1 billion in 2011.

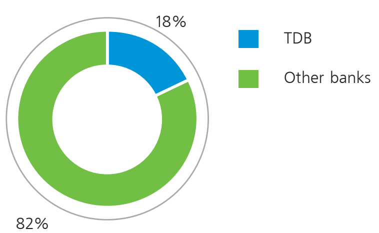
Total profit market share



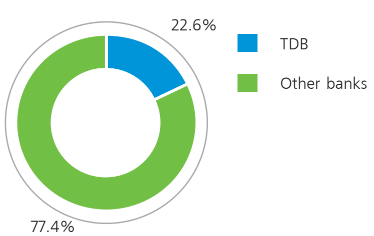
Total loan market share



Total deposit market share



Total asset market share



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 circumstance addressed.

Management team

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

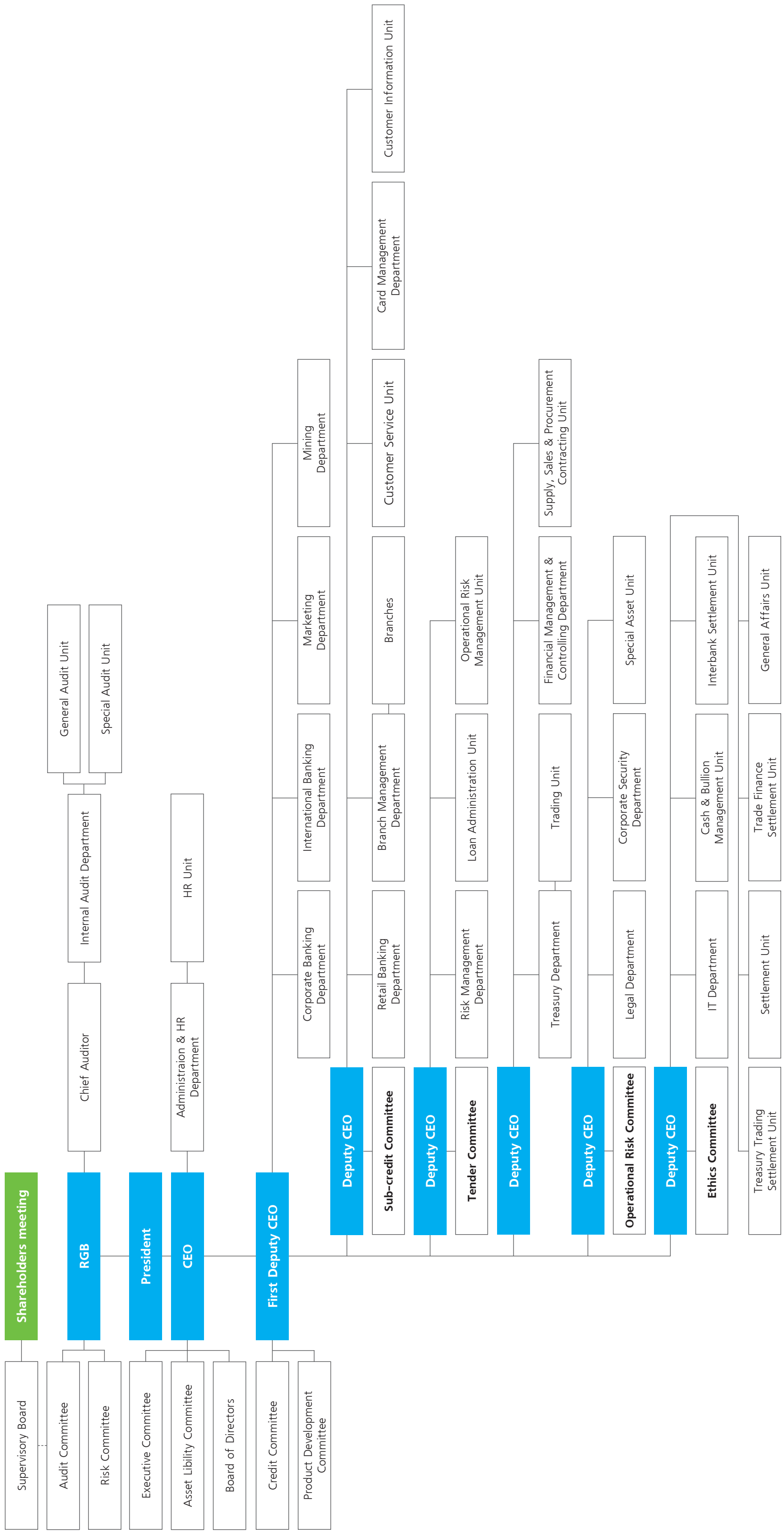
Employees

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.

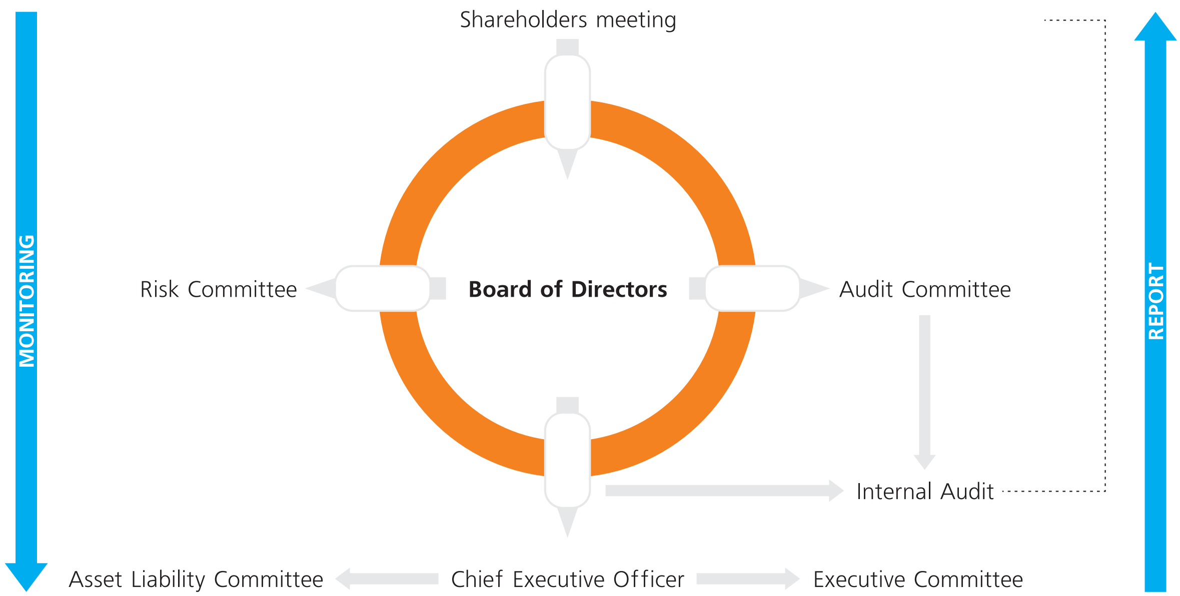
All stakeholders

The bank is 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 right way.

ORGANIZATIONAL STRUCTURE



CORPORATE GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

Representative governing board

Chairman

Mr. Doljin ERDENEBILEG

Members

Mr. Randolph KOPPA
Mr. Dorligjav BATJARGAL
Mr. Chuluunbaatar ENKHBOLD
Ms. Tamir TSOLMON

Chief auditor

Ms. Damdin GANTUGS

Corporate 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

Ms.Demchigjav OTGONBILEG
Deputy CEO

Mr. Lkhagvasuren SORONZONBOLD
Deputy CEO

Mr. Dambiijav KHURELBAATAR
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





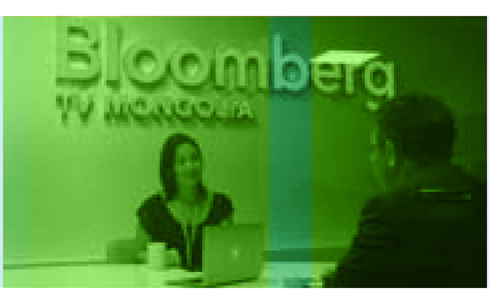


1	**Ms. Navaansharav NYAMSUREN**	Director, Corporate Banking Department
2	**Mr. Luvsan NYAMSUREN**	Director, Administration and Human Resource Department
3	**Ms. Dagmid YANJMAA**	Director, Financial Management and Controlling Department
4	**Ms. Bayarbaatar BAYARMAA**	Director, Retail Banking Department
5	**Mr. Purevdorj ULAM-ENKHTUYA**	Director, Branch Management Department
6	**Mr. Ichinnorov ORKHONKHUU**	Director, Information Technology Department
7	**Ms. Palamdorj GANTUUL**	Director, Internal Audit Department

8	**Ms. Khasaarai GANTSETSEG**	Director, Card Management Department
9	**Mr. Anya MUNKHBAYASGALAN**	Director, Marketing Department
10	**Mr. Shirendev ERDENEBAATAR**	Director, Corporate Security Department
11	**Mr. Tsognyam GANBAYAR**	Director, Legal Department
12	**Mr. Avaasuren BATZORIG**	Director, Risk Management Department
13	**Ms. Baltsukh ERKHEMBAYAR**	Director, International Banking Department
14	**Mr. Lkhagvajav GANTUMUR**	Director, Treasury Department

KEY EVENTS 2011

- In 2011, TDB recorded good results in the main financial indicators. In the reporting year, the total assets amounted to MNT 2.0 billion and the net profit increased by MNT 21.4 billion or 103.4 percent from the previous year reaching MNT 42.1 billion.
- TDB Capital LLC was established to provide various integrated investment banking services, including raising funds for state and local companies, issuance of bonds and shares of companies on international and local stock exchanges, financing of mining and exploration works, provision of financial and investment advisory to customers, underwriting and brokerage services.
- The Bank received the "The Best Supporting Organization" award from the "Mining Journal Awards 2011" organized by the "Mongolian Mining Journal".
- "Bloomberg TV Mongolia", a new Bloomberg Television channel, was launched in partnership with the Bloomberg Media Group, the global business and financial information and news leader.
- 10 branches were opened in the most populated, business areas of Ulaanbaatar city and 4 branches and settlement centers, "Darkhan", "Erdenet", "Umnugovi" and "Khutul", were opened in the regions.
- Compared to the year 2010, the number of newly recruited employees rose by 68.6 percent or 380 persons and the total staff reached 1014.
- 24/7 information call center "1977" was opened at the end of the year to provide an integrated information related to any of TDB's products and services.
- "Import Finance Facility Agreement" was signed with large banks of China such as "Agricultural Bank of China", "Industrial and Commercial Bank of China" and "Baoshang Bank" of Baotou City.
- Export-Import Bank of Korea (Korea EximBank)'s import finance credit line increased to USD 20 million.
- TDB signed along with other Mongolian commercial banks USD 14.2 million agreement for the development and modernization of the Mongolian Stock Exchange.
- The 4th Annual "Card Merchants Conference" was organized successfully. Over 150 merchants participated in the conference representing all merchants that use TDB cards.
- TDB won the "Best Trade Finance Bank in Mongolia" in the selection of the "Best Trade Finance Facilitators in Asia 2011" by the "Global Trade Review" magazine.
- Randolph Koppa, President of TDB and TDB Capital LLC, who is contributing his immense experience of working for more than 40 years in the international banking industry in 12 countries, to the banking sector of Mongolia and stands out for his innovative ideas and best practices, received the Order of the Polar Star, Mongolia's highest state decoration.



AWARDS AND ACCOMPLISHMENTS

- TDB was selected as the leading bank among the "TOP-5 Banks of Mongolia" award organized jointly by the Mongolian National Chamber of Commerce and Industry (MNCCI) and the Government of Mongolia. This award has been conferred for introducing innovative products and services in the banking market and for excellence in operations. The Bank took the leading position in this selection in the "Corporate Social Responsibility" category.
- Of total employees who have been conferred prizes and awards, 13.6 percent received state orders and medals, 22.9 percent obtained the Bank of Mongolia awards (Leading Banking and Finance Employee, Honorary Mention and Certificates of the Bank of Mongolia), 21.2 percent won the Leading Employee of the Year awards and 8.5 percent were granted awards of other ministries and public administration offices and the Mongolian Youth Association.
- Each year employees who earn the trust of the staff team and demonstrate professional achievements are awarded a trip abroad. In 2011, 40 employees travelled to Hong-Kong and Macau, accordingly.
- On October 10, 2011, the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA), the government implementing agency, celebrated its 15th anniversary. During the ceremony FIFTA selected the Best Foreign Investment Supporting Organizations. On this ceremony, TDB led other organizations by receiving the reputable award of "INVESTMENT ENVOY".
- TDB was selected as the "Best Trade Finance Bank in Mongolia" in the "Best Trade Finance Facilitators in Asia 2011" awards organized by the "Global Trade Review" magazine.
- Randolph Koppa, President of TDB and TDB Capital LLC, who is contributing his immense experience of working for more than 40 years in the international banking industry in 12 countries, to the banking sector of Mongolia and stands out for his innovative ideas and best practices, received the Order of the Polar Star, Mongolia's highest state decoration.
- TDB received the "The Best Supporting Organization" award from the "Mining Journal Awards 2011" organized by the "Mongolian Mining Journal".

BUSINESS
ACTIVITIES

CORPORATE
BUSINESS

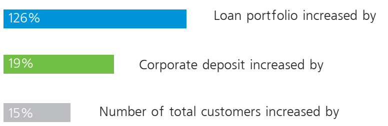
> SME
LENDING

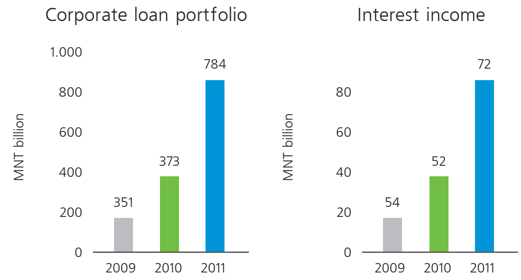
CORPORATE BUSINESS

Corporate Banking Overview

We provide the small and medium enterprises, who consistently cooperate with us, large entities with a sound market position, as well as our new partners, loan products and other services with flexible terms and conditions that correspond to their business demands and operational growth, and meet their financial needs. The Bank focused on improving products and services designed for corporations and providing favorable service environment to customers through its branches, settlement centers and the business department. Subsequently, the growth of the corporate deposit, loan portfolio and the number of total customers has been reconfirmed, recording even more achievements in the reporting year.

In 2011, the Bank disbursed loan products with flexible terms and conditions that fully satisfy the financial needs and correspond to the peculiarities of corporate businesses, resulting in 110.4 percent increase of the total corporate loan portfolio.





The number of corporate customers have reached 400
Increase in the loan portfolio 110.4%

We have been awarded with the following honorable awards "Supporter of mining industry", "Investment Bridge,
"Supporter of Development" Results of work performed in 2011 to increase the financial capacity of corporate clients and expand their activities. Further, the Bank will increase the loan amount to be disbursed to all sectors of economy. In particular, financial services designed for the main customers in the mining sector and their contractors will be disbursed at low cost, with favorable conditions of tenure, from the Bank's own funds, external resources and through trade finance.

SME LENDING

Apart from the Bank's loan products that correspond to the customers' business peculiarities, we promoted more low-interest, long-term project loans to small and medium entrepreneurs for expansion of their business scope and activities, thereby successfully implementing a number of international projects and programs. In 2011, to support the small and medium entreprises (SME) the Bank continued its successful implementation of the mid- and long-term investment loan programmes such as the JICA Two-Step Loan Project for "SME Development and Environmental Protection-II ", the World Bank "Private Sector Development Loan Project-II", the German KfW "SME Loan Program" and the "SME Development Fund" of the Ministry of Food, Agriculture and Light Industry. As a result, the total SME loan portfolio reached MNT 62.5 billion.

SME loan Portfolio (MNT billion)					
2011	2010	2009	2008	2007	Increase (2011/2010)
62.5	20.2	17.2	20.3	16.3	209.4%

The Bank had an increase of 209.4 percent in the SME loan portfolio in 2011, which was an exceptional growth. Offering flexible terms and conditions on loan products and services provided substantial support for the small and medium entrepreneurs to expand the scope of their business activities.

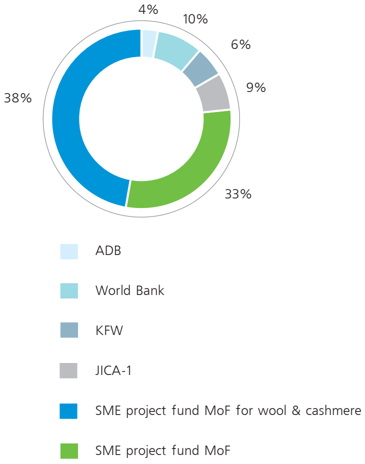
SME Project loan portfolio (MNT billion)			
2011	2010	2009	Increase (2011/2010)
44.0	6.7	8.1	560.4%

In 2011, the amount of disbursed project loan soared by 560.4 percent compared to the previous year. The Government issued bonds worth MNT 300.0 billion with the purpose to support small and medium businesses and to grant soft loan to producers of finished wool and cashmere products, which have been disbursed through commercial banks from the bond resources. The Bank was selected and entered into an agreement as the participating financial institution in this program and successfully financed 11 sub-projects.

Composition of project loan

The Bank will continue to grant loan products to small and medium enterprises in 2012, while maintaining the work results and the client business growth achieved in the reporting year. Furthermore, we aim to provide risk-free, low-cost comprehensive services of project loan and trade finance with flexible terms and conditions at a high professional level.

Conditions for access of small and medium enterprises to low cost financing have been created anew with the start of the "ADB Program on Development of Value Added Network".



Trade Finance

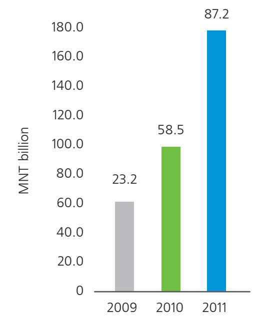
The Bank used trade finance instruments to diminish possible risks of foreign trade payments. Use of these instruments has grown considerably compared to previous years. As of the end of the reporting period, the amount of import letter of credit and guarantee was 86 percent greater than year-end 2010.

TDB issues and receives import and export letters of credit and bank guarantees to and from overseas suppliers and buyers duly informing the customers using the comprehensive services of the foreign trade finance, and continues its successful implementation of refinancing programs in partnership with over 30 leading banks in the world such as the ING bank, Commerzbank, Export Import Bank of Korea, ICBC bank and the Russian Agricultural bank.

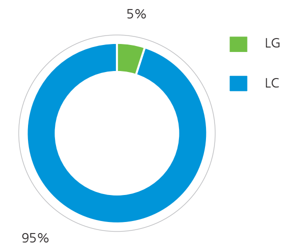
Further, TDB will focus on developing new opportunities for the foreign trade finance instruments in cooperation with the world reputable correspondent banks, and will implement necessary measures focused on improving the quality of services and enhancing the professional skills of the bank personnel.

"Best Trade Finance Bank in Mongolia" selection of the best trade finance facilitators in total of 26 Asian countries was conducted by the "Global Trade Review" magazine, where TDB has won the award from Mongolia

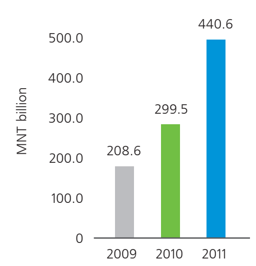
Import LC and Guarantee outstanding



Composition of opened LC and LGs in2011



Corporate current account



Corporate Current Accounts

Increase of the corporate current accounts is related to the substantial growth of cash flow and investment in the mining and construction sectors. In 2010, the corporate current accounts had an increase of 44 percent, and the growth was maintained in the reporting year reaching 47 percent greater levels of deposits.

Corporate current account services

TDB provides its customers all types of corporate current account services such as cash collection, issuance of guarantees for domestic and international use, settlements against invoices, international remittance, payment of salary of corporations and forex trade. The service fee income indicates a growth of up to 50 percent compared to the previous year.

RETAIL BUSINESS

> RETIAL CURRENT ACCOUNT AND SAVINGS

RETAIL BUSINESS

Retail Lending Activities

In 2011, TDB kept flexible and expansionary lending policy and provided all types of loan products with the most favorable terms and conditions in terms of interest and commission to fit personal needs, as well as the needs of small businesses. As a result, the loan portfolio increased 3.8 times from the previous year, and the Bank took the leading position in the banking sector by the growth of the loan portolio. This achievement was also the result of reduction of manual work and automation of credit decision and loan disbursement process with the purpose to strengthen the volume and capacity of branches and ensure faster and prompt delivery of services to customers. In order to satisfy all kinds of financial needs of individuals, used-car loan was successfully introduced into the market, thus increasing the types of car loan.

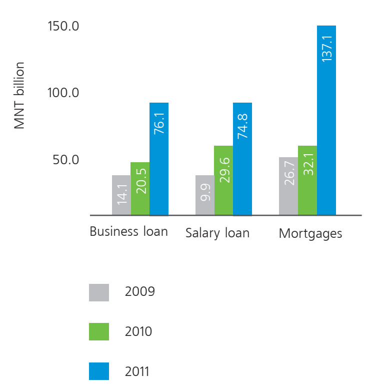
Moreover, long-term, low-interest loan was offered to small and medium entrepreneurs to support their activities and fit their demands and needs.

Mortgage loan

TDB which actively supports housing supply had a dramatic increase of 290.4 percent in the housing loan portfolio compared to the previous year. This was a prideful achievement which constituted 22.3 percent in the entire banking system. It has been strongly influenced by such factors as the housing demand, the Bank's policy, increase of awareness of individuals about the housing loan from the housing projects and programs implemented by the Government. TDB has been closely cooperating with its clients by offering discount terms and conditions for the long-term housing loan, thus contributing its partner institutions to resolve social issues of their employees. Moreover, the Bank earned customer satisfaction by cooperating with construction companies on special conditions and offering opportunities for the borrowers to purchase quality residential apartments through housing loans with favorable terms and conditions.

TDB was awarded as The Bank that Supports Building at the "Golden Tower 2011" Building Awards which selects the best in the building sector. This indicates high participation of the Bank in society-oriented activities.

Retail loan portfolio growth



Highlights of lending activities

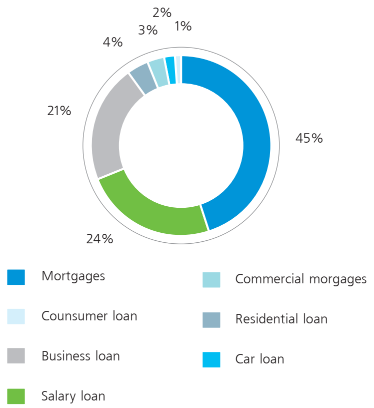
- The total number of borrowers increased by 64 percent from the previous year, reaching 27 thousand as at end of the year;
- The weighted average interest rate of housing loan has decreased gradually to 14.1 percent, indicating the lowest price for loan financing offered by TDB;
- The structure of the loan portfolio is balanced and the sales of all types of loan products are equal.

RETAIL CURRENT ACCOUNT AND SAVINGS

The growth of savings deposits in the banking system has been positively influenced by the growth of GDP and economy in 2011 and by the increasing trust of individuals in banks. TDB has strengthened its retail market position, expanded its branch network and increased its reputation. As a result, the current account and savings portfolio grew steadily by 60.5 percent compared to the year-end 2010, constituting 19.5 percent market share in the banking system.

- As of the end of 2011, the number of deposit holders reached 80 thousand which was increased by 32 percent from the previous year.
- The average amount of attracted deposits per account has been increased by 18 percent.

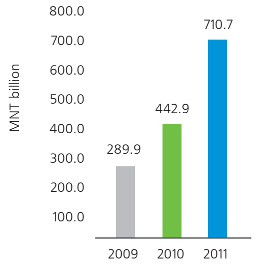
Retail loan portfolio structure



Employer incentive deposits

TDB started cooperation with long-time partner institution on employer incentive savings services based on cooperation agreements. The advantage of this service is that it can be used at a wide range of purposes by institutions such as to employ the personnel for a long-term stable employment, to grant incentives and to increase labor productivity.

Retail deposits growth



Certificate of deposit

The certificate of deposit which was first introduced in the market in 2008, is gaining more significance and value. Preference is given to this product over the other savings products as it can be used as an investment tool, be granted, bequeathed and demised.

Private Banking Service

TDB which is expanding its branches day by day transformed the "Private Banking Center", which was first established back in 2004, into a "Private Banking" settlement center, thus confirming its mission of providing all types of services designed for VIP customers fast and promptly and at a professional level. Moreover, "Zaisan" settlement center and "Central Tower" branch which were launched in August and October 2011, earned customer appreciation and satisfaction as they created the environment and set the standard for private banking to satisfy the demands and comfort of the customers, enabling them to obtain all types of banking services under one roof.

Highlights of Retail current and savings accounts services

- The Bank took the following measures in order to increase the types of the retail current and savings account services, improve customer satisfaction and to provide the banking service in an easy and accessible way:
- In 2011, we focused on explaining our customers the significance of the regular transfer service - a service designed to increase the savings by transferring funds of regular amount based on the orders of customers from their salary accounts to their deposit accounts on a regular frequency.
- In order to provide the citizens of Mongolia who reside abroad an opportunity to open an account at the Bank and keep their funds safe and risk-free, TDB has successfully implemented the first stage of the service of "Opening of account based on requests received through the internet".
- In order to shorten the customer's "time to get the banking service" and to diminish the risks related to agreements, the Bank reduced the manual work and switched to automated procedures.

OTHER PRODUCTS AND SERVICES

MoneyGram International Money Transfer Service

The year 2011 was a year of breakthrough for the money transfers. Based on the demands of customers and real financial possibilities, the MoneyGram service fees from Mongolia to other countries have been decreased considerably and set forth anew. Increase in the number of transactions proves that this change was the right step to fit the demands of the customers. Automation of the program was completed successfully at TDB and agent banks. TDB was the first bank in Mongolia and in Asia-Pacific region to have the transaction documents automated. The money transfer service has stepped into a new stage, and it has become easy to provide the service to customers. The signing of the MoneyGram agent bank agreement with Capital Bank had an important significance in increasing the number of service centers (particularly, in the regions), expanding the scope of activities and bringing the service even closer to customers. In 2012, the Bank aims to take the MoneyGram service to a higher level and introduce solutions that satisfy its customers' interests such as receiving funds into an account, receiving funds in desired various types of currency, while bearing no exchange rate risk.

PayEasy Money transfer service

The fact that PayEasy money transfer service jointly provided by Hana Bank, Korea and PayOne Company is used by 1 out of 10 Mongolians who live and work with official permission in the Republic of Korea, indicates that this service plays a vital role for those Mongolians enabling them to receive funds through a Mongolian bank, to invest into their home country, to increase their own funds, and to transfer money to their home country at the cheapest price.

CARD BUSINESS ACTIVITIES

CARD BUSINESS ACTIVITIES

Electronic Banking Service

As the human demands and needs change under the influences of the ever-progressing development of technology, technical advances and globalization, the conventional banking business is developing in such a way it has never been predicted before. This indicates the necessity to offer the banking products and services irrespective to time, space and to any other impacts. The fact that the number of internet users increased to over one million, registered internet users to 400 thousand and mobile phone users in aggregated number reached 2.8 million shows that, on the one hand, vast lands, mining based business and lifestyle, on the other hand, underdeveloped infrastructure, high cost of establishing a physical banking branch and low return on customer, create conditions for developing the e-banking business. TDB's e-banking service policy is directed to satisfy the demands and needs of its customers, its clients' employees and families, and will focus more on meeting their future demands for the e-banking products and services. In 2011, the Bank offered its customers improved e-banking products and services of e-cards and internet banking. All necessary technical and preparatory work has been conducted to provide the customers the access to the world-wide accepted, most practical e-banking service which is based on one of the basic uses of customers, a mobile phone. In particular:

Payment card

TDB first introduced its name payment cards to the market when it obtained basic membership of the Visa Worldwide in 2001, thereby connecting Mongolia to the worldwide payment network. In 2010, 24 kinds of magnetic and EMV chip technology based debit and credit cards of four basic types of Standard, Gold, Business and Platinum, were launched to the market for local and international use by customers. Also, cobranded cards which were introduced to the market by the Bank jointly with its partner institutions for the use by the partners' clients have become the right product that fit the demands and needs of both, the partner institutions and their clients.

MT Fuel Card: In the second half of the reporting year, the Bank has introduced "MT" fuel discount card designed for the individuals and institutions possessing automobiles jointly with "Magnai Trade" LLC, thereby offering the holders of this card an opportunity to enjoy 3-percent discount from the sum of transaction in every purchase of fuel, to enjoy priority service in case of fuel shortage and to have full control over deposits, withdrawals and expenditures of the card account. With the purpose to increase the types of its payment cards, to improve its customer satisfaction and to support its partner institutions, TDB launched several cobranded cards to the market in 2011.

One of these cards is the Oriflame card which is designed for the Oriflame LLC's sales consultants to receive their salary and incentives and for transferring the payments of the ordered goods using the internet or ATM. This card is a standard domestic payment card that contains Oriflame LLC's name, logo and brand design

In the reporting year, the most up-to-date technology for the payment card security - the EMV chip technology - was successfully introduced to the MasterCard in the two currencies USD and EUR that were first launched in 2008. The cards for the card holders were replaced free of charge. Besides transferring the basic four types of the MasterCard (Standard, Gold, Business and Platinum) into the EMV chip technology, the Bank has introduced prepaid card for the first time in Mongolia in its original meaning with the purpose to support the businesses of its partner institutions, to increase the types of the Bank's name cards and to fit the cards to the demands and needs of customers

The first prepaid fuel card with bonus points designed for the use of "M-Oil" LLC's clients has been introduced to the market jointly with "M-Oil" LLC. This card allows to earn bonus points at 1percent of the fuel purchase price and to purchase oil and lubricants from "M-Oil" company at discount price using the collected bonus points. This product is the second payment card issued by TDB which uses the Loyalty system solutions of the worldwide renowned company Acer Inc.

In order to increase customer satisfaction, support non-cash transactions and attract new customers, in December 2011 we have introduced own brand prepaid gift card MasterCard. This card is advantageous because the stages of concluding agreement and receiving orders have been simplified, and is special as it is possible to charge the card account by the desired amount ranging between MNT 20.000-1.000.000 as well as to offer the card as a gift to family and friends.

In September 2011, legal environment for issuing the first in Mongolia National payment card was created by the Bank of Mongolia. It has a historical significance for local commercial banks and Mongolians to use their own national payment card. In this scope, TDB has been issued the permission of the first bank to issue the National "₮" brand payment card, and via its card supplier had KURZ, a company that develops holograms for Visa and MasterCard, create the security hologram and logo for the National "₮" card based on Trustseal® technology. Thus, the preparatory work to launch TDB-named National payment card has been made successfully, bringing the card security to the world standard, and has an important significance for other Mongolian banks to adapt this method. This card is designed to be used in the

domestic market and it is considered possible to get connected to the international payment network in the future.

In the past 2 years, TDB has drawn special attention to the Bank's card security and customer transaction information security and introduced the 3-D Secure technology of the Verified by Visa and the MasterCard Secure Code for internet-based transactions in order to move from the magnetic stripe card to EMV chip cards, to prevent the Bank's cardholders and internet merchants from possible risks, and to reduce the risks of fraudulent transactions. Moreover, cobranded cards that can reach larger markets have been offered to customers in order to support the businesses of the Bank's partner institutions, and more focus has been drawn to launching the cards to the market. As of the end of the reporting year, the number of cardholders reached 160 000, which is increased by 28 percent compared with the previous year, whereas income from bank card business grew by 53 percent from the previous year, constituting 26 percent of the total fee income of the Bank. The funds attracted through retail deposits totaled to MNT 63.5 billion which is increased 1.6 times compared to the same period in the previous year. It is because 0.3 percent interest is paid by the Bank to the outstanding balance of card account irrespective of the amount of the balance.

ATM

TDB established its ATM network and started its operations in 2001. As of 2011, there are a total of 77 ATMs, 60 in Ulaanbaatar city and 17 in the regions serving the customers. In the reporting year, conditions and possibilities have been created for the TDB ATMs to accept the international brand Discover, Diners Club International and PULSE network cards. This service has an important significance as it became even closer to international cardholders, in particular, cardholders, guests and tourists from the U.S. Moreover, following the e-banking development policy of the Bank, preparatory work for providing technical possibilities to withdraw cash from an ATM using mobile phone has been conducted in the scope of the "Most Money" project.

POS

TDB's business to accept payment cards as payment started in 1991. First, AMEX cards were accepted as payment by the Bank's own network, branch units and partner institutions, followed by Visa and MasterCard in 1993 and JCB cards in 1994, respectively. Further, by getting connected to the Bank of Mongolia's Inter-bank Settlement Center in 2010, the Bank started accepting all types of payment cards of all domestic commercial banks. In 2011, it became possible to use mobile phone as a payment tool at the POS terminal. In the reporting year, POS transactions increased by 40 percent from the year 2010, accounting for 20 percent of the total card operational fee income. Besides expanding the branch and ATM and POS networks and developing other e-products and services, TDB offers a "third party service" to Mongolian commercial banks to support their businesses by providing advice on card system as well as business consultancy, and to provide possibilities to reach out customers in certain regions through them. This activity includes accepting other banks as associate members, providing program software and system support and business consultancy. As of 2011, Ulaanbaatar City Bank, Capital and Erel Banks cooperate as associate banks. Further, it is discussed to cooperate with XAC Bank, Capitron and other commercial banks. As of the reporting year, the revenue from this activity constitutes 5 percent of the total card income.

In the reporting year, the Bank's focus was directed at increasing the number of cards to be accepted in its network and at reaching its customers by offering services through the networks of other banks. The payments of the standard services such as internet trade, mobile phone operator and of other billing companies are accepted at the TDB ATMs, branches and internet merchants.

Payment card market shares of TDB /2011/

Number of POS terminals	25%
Number of POB terminals	7%
Number of ATM terminals	12%
Number of active cardholders	36%

POS terminal	Retail sales volume /MNT million/	32%
	Number of transactions /MNT million/	28%
POB terminal	Cash advance /MNT million/	18%
	Number of transactions /MNT million/	12%
ATM terminal	Cash withdrawal /MNT million/	16%
	Number of transactions /MNT million/	13%

Internet banking service

TDB has been offering its customers the internet banking service with a wide variety of services and possibilities, irrespective of time and space based on a three-stage security system. The number of internet-based transactions has increased by 14 percent from the previous year. Customers are offered to obtain the following types of transaction through the internet banking:

- To view the account statement and transactions;
- To receive letter and information from the Bank;
- To send letter to the Bank;
- To extend the term of time-deposit;
- To make forex trade transactions;
- To make transfers between the customer's own accounts;
- To make transfers within the Bank;
- To make transfers between domestic and international banks;
- To make transfers between domestic banks;
- To make payment order and invoice payments;
- To make bill payments.

	2011	2010	2009
Number of transactions /in thousand/	67.50	59.19	48.34
Volume /MNT Billion/	360.79	311.00	185.13

Mobile banking service

The Mobile banking service was offered to customers in 2011 in two options of WAP and JAVA which are based on the GPRS technology or the mobile internet, a mobile option of the internet banking. As it became possible to provide this service to all customers of the Bank, all holders of current, savings and card accounts have been offered an opportunity to obtain the mobile banking service. In 2011, transactions made using the mobile banking service increased 11 times compared to the previous year. The transaction information is shown below.

	2011	2010
Number of transactions /in thousand/	18,6	1,6
Volume /MNT Billion/	2.62	0.17

In the reporting year, TDB started implementing the "Most Money" project to use mobile phone as payment facility. Future mobile payments have been set to start as the project opened an opportunity to obtain services of the ATM and of physical and online merchants using mobile phone.

INTERNATIONAL BANKING

INTERNATIONAL BANKING

International Banking Department's (IBD) goal is to develop relationships and coordinate correspondence with foreign banks and financial institutions at a high standard, and to deliver foreign settlement, trade finance, on-lending project facilities, services and financing opportunities arranged by foreign banks and FIs to its customers. Within the framework of the aforementioned goal, The Bank strengthened its relationship with over 150 existing foreign banks and FIs, and further established correspondent accounts with Bank of China, VTB Moscow, Citi Bank, Unicredit Moscow Bank, Renaissance Securities, signed "Trade Finance Agreement" with Agricultural Bank of China, Baoshang Bank, and "Master Agreement Trade Finance Facility" with Commerzbank AG, which increased opportunities of financing the imports from China, Europe and other countries.

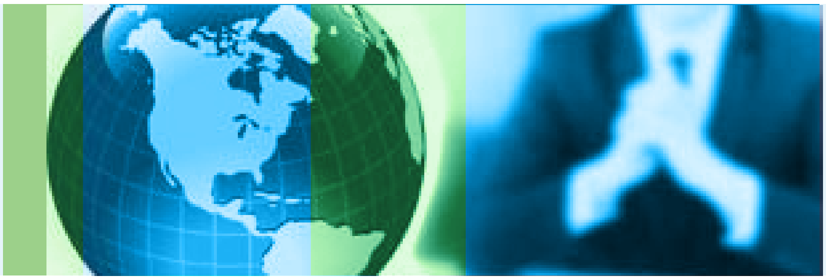
In the reporting year, International Banking Department cooperated with foreign banks and FIs in the business areas including trade finance, syndicated lending and project finance. It attracted borrowings from foreign banks and FIs in the amount of MNT 98.0 billion, which is increased 2.3 times compared to MNT 42.0 billion as at the end of 2010,. Therefore, it had an important contribution to diversifying the Bank's funding base and providing loans with lower interest to its customers based on attracted funding with lower financing cost from international banks and FIs

In 2010, the bank hosted numerous strategically important international conferences and forums in Mongolia and abroad in order to support mining sector and investment and to provide with professional advice about the bankin products and services to its prospective clients. The Bank co-organized and sponsored Coal Mongolia 2011 (February), Mongolia Economic Forum (March), Introduction of Comprehensive Interbank Import Credit Facility with Korea Exim bank (April), Listing in Hong Kong (April), Frontier Capital Raising Conference (June), Singapore Mongolian Business Forum (June), Korea's economic success: Strategies, challenges and lessons for Mongolia (August), Discover Mongolia (September), Mongolia Trade & Commodity Finance Conference (October), and Metals Mongolia 2011 Forum (November).

International settlement

The Bank's international settlement system is relied on its wide range of correspondent banking network. In the reporting year, the Bank has successfully executed customer payments and transfers through its 38 correspondent accounts denominated in 14 currencies held with 27 reputable international banks. Furthermore, the Bank is able to execute international payments in different currencies than above mentioned 14 currencies through its multicurrency account held at ING Bank. In 2011, the Bank has expanded its correspondent account network by opening new Chinese Yuan, Russian Ruble and US Dollar accounts with Bank of China (Hong Kong branch) and VTB Bank, Moscow.

In 2011, the total amount of foreign remittances has increased significantly with Mongolia's main trade partner countries such as USA, Austria, Australia, United Arab Emirates, Belgium, Hong Kong, Netherlands, Canada, Russia, Poland, Thailand, Turkey, China, Czech Republic, India, Japan and South Korea, with the average increase of of 70%.



Furthermore, foreign reputable banks and financial institutions are increasingly opening correspondent accounts with the Bank in local currency (Mongolian Togrog), since investors' interests are growing along with the rapidly developing economy of Mongolia. The Bank opened 10 accounts for foreign banks and financial institutions in Mongolian Togrog, Chinese Yuan, and US dollar as an international wire transfer executer.

Trade Finance Business

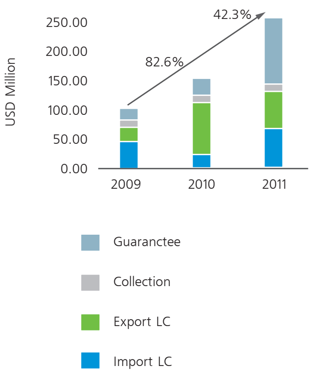
Trade finance business has been one of our strengths, and the bank has proved itself to be the premier trade finance facilitator taking the majority of votes from world's major financial institutions to win "The Best Trade Finance Bank of Mongolia 2011" award. The Bank has a broad experience in providing various flexible trade finance services to its customers.

In the reporting year, with a rapid growth of the economy, the country experienced an increase of external trade turnover of 83%, compared to the year of 2010. It was mainly driven by imports of consumer products, mining equipments, construction materials, industrial machineries, and raw materials, increased exports of mining minerals, live stock raw materials and meat products. With regard to an increased knowledge of customers about trade finance instruments for the last year, utilization of these instruments has increased largely. In 2011, total amount of issued import, export letter of credits, letter of guarantees, collections increased by 42%.

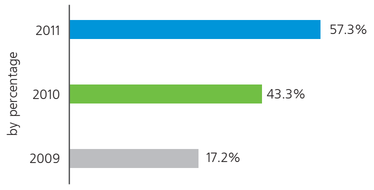
Trade turnover with the countries such as Switzerland, China, Turkey, Thailand, Singapore, Hong Kong, and England show the highest rate of growth, whereas with USA, Germany, Russia, South Korea, India and Japan there was significant growth in trade finance volume.

An extensive growth of Mongolian mining sector is leading to an increased amount of total exports due to this fact, The Bank's export letter of credits have increased by 66.8% on average since 2007.

Growth of Trade Finance Volume



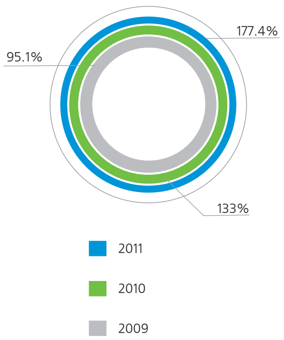
Growth of Export LC Volume



Import financing

In order to promote foreign trade and to provide lower-cost post import finance to its customers, The Bank has been providing import finance loans under cooperation with respected international banks and financial institutions. In 2011, import finance loan amount reached USD 20.8 million, which is increased 3.1 times from USD 6.8 million in 2010.

In the reporting year, The Bank has expanded its cooperation with UBS Bank, Citibank, Bank of China, Deutche Bank, SMBC Bank in for trade finance businesses. At the end of 2011, over 30 international banks established clean based trade finance line amounting to about USD 177 million, which is increased by 27% compared to 2010.



Environmental Protection, Small-Medium Enterprises supporting project financing and on-lending facility programs

Project Financing and On-Lending Facility Programs

The Bank has been an implementer and participating bank of on-lending facility programs funded by multilateral international financial institutions which support Small-Medium Enterprises (SMEs), agriculture, rural area development and environmental protection.

In the reporting period, the Bank has made sub-loan disbursements to 19 perspective customers in total amount of USD 1.5 million, EUR 605.0 thousand and MNT 6.0 billion within the framework of SMEs development, agriculture, rural area development and environmental protection programs, provided by Asian development bank, World Bank, Japan International Cooperation agency, KfW bank of Germany, and inter-government of Mongolia, with an increase of 310% compared to the year of 2010.

These sub-loan disbursement statistics are forecasted to increase in the future and successful implementation of above on-lending programs will have major contribution to the development of SMEs in Mongolia.

Syndicated Loan Facilities

TDB was the first Mongolian bank to implement syndicated loan facilities with reputable international and domestic financial institutions among local banks.

In 2011, the Bank successfully arranged USD 14.2 million syndicated loan facility arranged for Mongolian Stock Exchange (MSE) with participation of 5 local commercial banks.In the reporting year, the Bank's syndicated loan facilities arranged with foreign banks for its bigger corporate clients in petrol import and mining sectors, the key contributing sectors of the economy of Mongolia, is USD 65 million and MNT 50 billion, indicating an increase of 11.2 times from USD 9 million in 2010.

Due to the rapid development of Mongolian economy in the mining, construction and infrastructure sectors, clientele's demand for loan is rising significantly, thus the need for syndicated loan facilities is increasing.

Bond Activities

In 2007, TDB successfully issued USD 75 million Senior Unsecured Notes due 2010, under its inaugural USD 150 million EMTN programme. This debut issuance was Mongolia's first ever public placement of debt in the international debt capital markets.

The repayment of the first issue in 2010 and the improvement of global economy enabled TDB to reaffirm its attractiveness to international investors. Thus, on October 18th 2010, TDB was able to successfully launch its second issue on the market by completing the placement of USD150 million three year Senior Unsecured Notes under its USD 300 million EMTN programme, followed by the issue of USD 25 million five year Subordinated Notes.

The successful full repayment of the first bonds enabled the Bank to reaffirm its stable operations and attractiveness among investors, which had positive impact on the its issuance of the second notes and enabled a strong market response, resulting in the senior notes offering being USD 520 million, 2.8 times oversubscribed

In May 2011, Bank also issued USD 5 million five year subordinated notes invested by Hong Kong based private investor. All these actions generally have enabled TDB to reaffirm its attractiveness not only in Mongolia but also in the international market.

International payments

In 2011, the total foreign trade turnover reached USD 11.3 billion, an increase of 83.1 percent from the previous year. In the reporting year, TDB's international payments totaled to USD 5.4 billion, a growth of 57.2%, TDB alone executed 48 percent of the country's foreign trade payments. In 2011, total export transactions increased by 100 percent from the previous year, and import transactions by 31.3 percent, respectively.

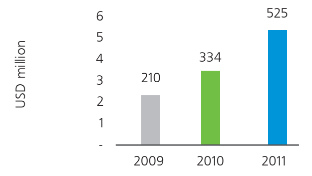
The volume of international remittances received from and sent to foreign countries is growing steadily. Compared with base year, the received and sent transfers in 2011 have increased respectively by 164 percent and 176 percent

As a result of the intensive growth of the mining-based economy, the international payments related to the purchase of construction material, vehicle and production machinery tend to increase further.

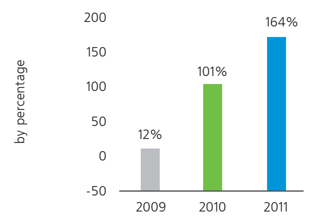
In the reporting year, TDB executed international payments with over 90 countries. 75 percent of total transactions for imports were the remitted to U.S., Hong-Kong, Canada, Russia, South Korea, China and Switzerland, 21.6 percent of which constitutes payments made with China, 14 percent with the U.S. and 12 percent with Hong Kong, correspondingly.

60 percent of total transactions received from foreign countries and which indicate the exports comprise remittances received from the U.S., the U.K., Hong-Kong, Latvia, Russia, South Korea, China and Switzerland, 40 percent of which constitutes payments made with Hong Kong, 11 percent with China and 6 percent with the U.S., correspondingly.

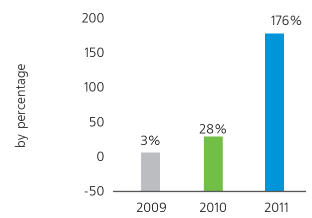
The volume of international payments



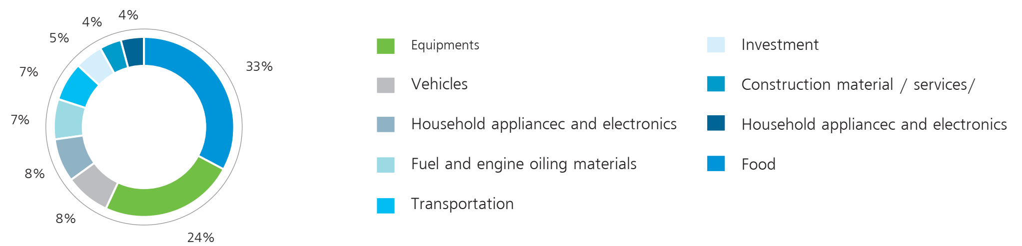
Inbound transaction growth /based on FY 2005/



Outbound transaction growth /based on FY 2005/



Outbound transaction volume /by percentage/



TDB CAPITAL

TDB CAPITAL

Company Introduction

TDB Capital LLC is a wholly owned subsidiary of Trade and Development Bank and a member of Mongolian Stock Exchange that has acquired license to conduct professional activities on the capital market of Mongolia from the Financial Regulatory Commission in order to provide comprehensive investment banking services to its clients. At this time when every citizen of Mongolia has been given opportunity to benefit from the natural resources of the country thanks to the rapid economic growth and development of mining sector.

2008	2010	2011
An International and Investment Banking Department within the TDB was formed for the first time among Mongolian commercial banks.	TDB restructured its International and Investment Banking department and transformed the Investment Banking role to its newly established company TDB Capital LLC.	Licensed by the Financial Regulatory Commission of Mongolia to act as an underwriter, broker and other investment banking service provider.Became a member of Mongolian Stock Exchange and professional participant of the capital market.

TDB Capital LLC launched its operations aiming to make its contribution to the capital market of Mongolia leveraging its experience of 21 years, reputation on international markets, network and relationships, and leading position on the domestic market.

> Corporate finance;

> Brokerage;

> Asset management;

> Research, and Advisory

Board Of Directors

The Board of Directors is appointed by founders of the Company and works in charge of supervision over executive management on behalf of shareholders. The Company's Board of Directors is composed of three members – Mr. D.Erdenebileg (Chairman), Mr. B.Medree (Board member), and Mr. Randolph Koppa (Board member).

Manegement Team

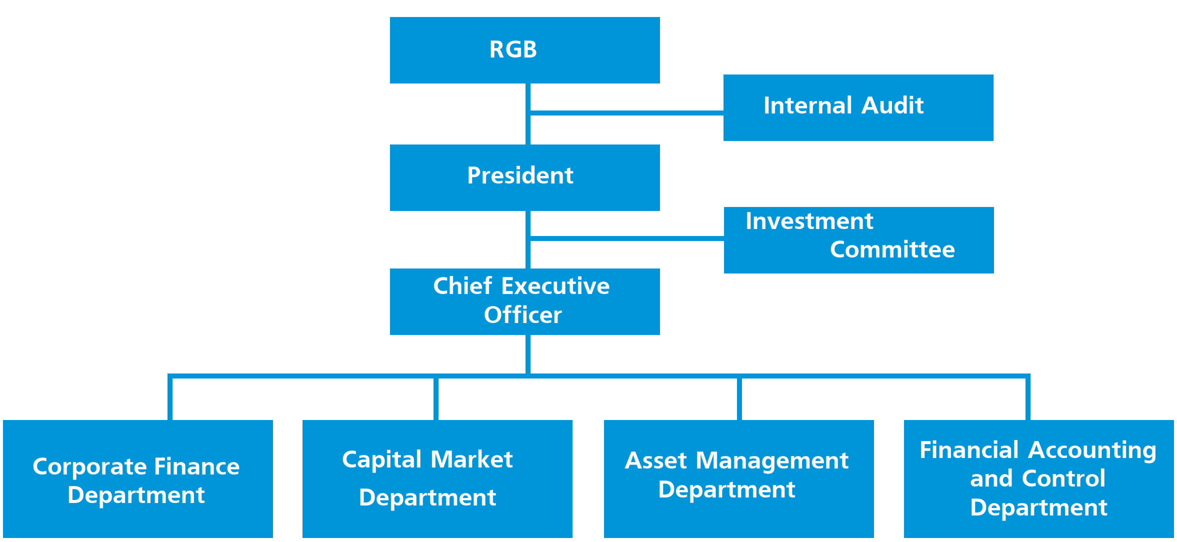
Mr Randolph Koppa, President

Mr. Randolph Koppa is a banker who has over 40 years of experience in international banking and finance sector working in 12 countries including Japan, Hong Kong, Singapore, Italy, Poland, United States, and Netherlands. Before joining Trade and Development Bank, Mr. Koppa spent 15 years working in executive positions at ING bank of Netherlands. Mr. Koppa has extensive experience in the fields of commercial and investment banking in emerging markets.

Mr. O.Orkhon, Chief Executive Officer

Mr. O.Orkhon has been working as the First Deputy CEO of Trade and Development Bank since January 2007. He had previously worked as economist and senior economist at TDB and as Deputy CEO and CEO at TDB and Ulaanbaatar City Bank. O.Orkhon is a professional banker with 15 years experience specializing in financial analysis, planning, trading, credit financing, offshore transactions, and debt and equity financing.

Organizational Structure



HIGHLIGHTS OF 2011

- Acquired a license to conduct professional activities on capital markets of Mongolia from the Financial Regulatory Commission;
- Enrolled as a member of Mongolian Stock Exchange;
- Opened a brokerage center.
- Executed securities trading amounting to MNT 105.8 billion or 23 percent of the total trading of Mongolian Stock Exchange alone.
- Cooperated with domestic companies and raised investment funds of MNT 93.3 billion for its clients.

BUSINESS OPERATIONS

Corporate finance

We offer the following services to our clients within the framework of our corporate finance and underwriting business.

- Underwriting (IPO);
- Bond and Debt instruments;
- Private placement;
- Structured finance;

We have raised funds for purposes of pre-IPO financing, mining exploration, and export down payments for our clients. In addition, we have started to work on equity and bond underwritings of domestic companies in cooperation with international reputable investment banks. In 2011, we partnered with national companies that can make substantial contribution to the country's economic development, and raised MNT 93.3 billion in the following forms which was required by the companies to implement their projects.

- Subordinated debt: Subordinated debt of MNT 7 billion was issued in private placement in order to increase the capital of a client.
- Private placement: We successfully raised MNT 37.4 billion in private placement for purposes of mining and exploration, and pre-IPO financing for two mining projects.
- Syndicated loan: Within the framework of mining sector projects, we arranged MNT 48.9 billion syndicated loan for the business operations of our clients.

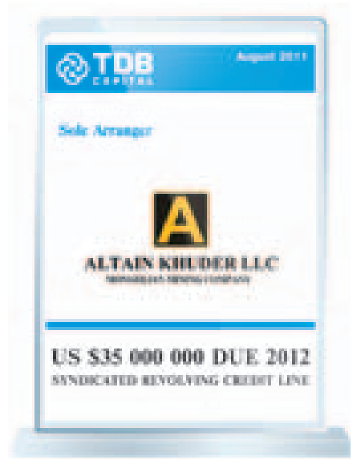
Brokerage

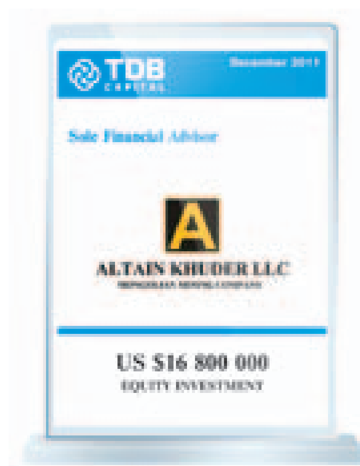
The following services are offered to our clients within the framework of brokerage operations.

- Securities brokerage;
- Securities research, advisory;
- Other;

In connection with Mongolia's economic growth and mining sector development, international investors show growing interest to invest on the Mongolian Stock Exchange. In order to open this opportunity for investors, and to expand the capital market knowledge and participation of domestic companies and civilians, we have started to provide brokerage services with high professional standards.

In addition, based on the interest of large domestic companies and individuals to invest in securities traded on large foreign stock exchanges such as Hong Kong, Australia, London, and Toronto Stock Exchanges, international securities' trading service is under preparation. We opened our Brokerage Center on July 22, 2011 and during the reporting period more than 3,000 accounts have been opened for clients. Moreover, we received around 120 trading orders from clients and executed MNT 72.6 million stock trading and MNT 105.8 billion bond trading.





Professional research services

In order to provide capital market information to our clients regularly in a swift manner, we prepare reports and reviews on the following.

- Macro economics
- Sector research
- Coverage on MSE listed companies
- Coverage on internationally listed companies that operate in Mongolia
- Weekly market review
- Daily trading review

We aim to provide investors with accurate information on macroeconomics, current market condition and future prospects in addition to doing research on main economic sectors as well as Mongolia and foreign listed companies operating in Mongolia.

Other services

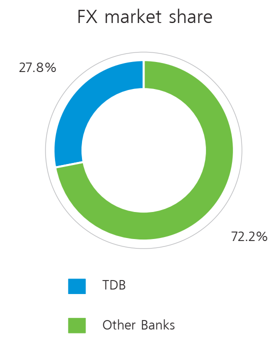
In order to make tangible contribution to the capital market development of Mongolia, we organize trainings for clients to give basic knowledge on capital markets and provide necessary information for participating in securities trading. Besides organizing this weekly training at our brokerage center, we visit companies and organizations on request to provide information for their employees, which is truly appreciated by our clients. Moreover, we launched the internet banking service in order to make it possible for our clients to get account information and check their accounts at their convenience. Furthermore, other services as organizing shareholder meeting on request are offered to our clients.

TREASURY MANAGEMENT

TREASURY MANAGEMENT

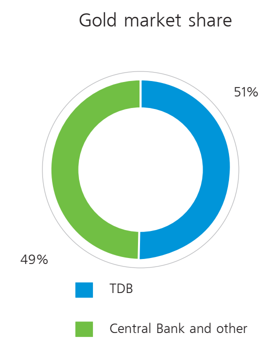
Foreign Exchange Trading

Since the establishment of the bank, it has been offering most types of foreign currencies and related transactions, services in the market. TDB is the main player of the domestic foreign exchange and international payment market. The year 2011 was successful year in terms of foreign exchange activities. The bank has increased trading volume by 26.5 percent from previous year, holding 1/3 of the domestic market share as a result of the bank's policy to have the most rational and flexible rates. Although the world financial market was unstable during the reporting period as European debt market crisis spreading and Mongolian foreign trade deficit increased, the banking system faced huge risk from USD and MNT rate fluctuations. Successfully, TDB was able to intensify its trading activity in the international and domestic market by managing its position in optimal and profitable way.



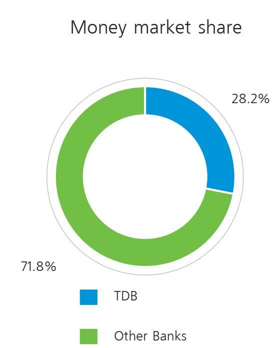
Gold trading

2011 as to domestic market of gold was a specific year of amendment of the law on Natural Resources and beginning of implementation of "value added taxes". Successful introduction and re-improvement of these changes in Grats program used by us received gratitude of clients and ensured leading position in gold market. Also increasing number of client companies, close cooperation with them, providing them with financial information, gold deposit loan, business loan for guarantee with gold and activities for close relation of other banking services became activities directed to increase profitability. Evidence of it is rendering 9,434 billion Togrogs advance gold loan to companies and citizens, buying of 1,580 tons real gold which constitutes 51% total domestic gold market.



Money market

The main objective of cash management is to execute customers' settlements promptly while placing bank's excess fund effectively. Within the frame of this objective, the bank has been participating in primary and secondary market operations by placing its free sources to low risk and interest earning assets such as Central Bank bills, Government bonds, and foreign and domestic banks. Moreover as a leading commercial bank in Mongolian banking and financial market, Trade and Development Bank of Mongolia assisted state policy of economic development by actively participating in bond auctions with purpose of financing major projects which are implemented from Government such as "4,000 apartments" and other projects to support wool and cashmere sector and small and medium enterprise. To clarify, last year the bank bought Government bonds in the amount of MNT 75.8 billion which accounts for 30 percent of total issued bonds. Then the bank's Government bond portfolio increased by three times to over 100.0 billion togrog. That illustrates TDB's position in domestic money market.



Asset liability management

In 2011, Trade and Development Bank of Mongolia aimed to improve its liquidity and profitability by elaborating its asset structure and to increase its assets by attracting new funds. As a result, the bank's total assets have increased by 55.0 percent and exceeded 2 trillion tugrug. Also asset structure improved as loan portfolio share in total assets increased from 34.4 percent to 53.9 percent. Besides increasing its loan portfolio, the bank improved its profitability by participating trading of highly liquid and interest earning assets such as Government and Central Bank bonds. Furthermore, deposits from state owned and private entities and individuals have been increased by 39.8 percent, deposits from financial institutions have been increased by 265 percent and total liabilities of the bank have been increased by 55.1 percent to 1.9 trillion tugrug. Specifically, the bank's project loans and syndicated loans increased 5.2 times, the result of active participation in Government funding projects and the expansion of cooperation with reputable foreign banks and financial institutions. Because these funds are used to provide long term low interest loans to worthy SMEs, this has marked a significant achievement for the bank.

RISK MANAGEMENT

Overview

TDB is the first commercial bank which introduced risk awareness ideology in Mongolian financial market under the purpose of understanding importance of risk management when it independent risk management division within its internal structure in 2003. The Bank, within the management of variety of risks in financial institutions, introduces internationally accepted standards of risk management into its operation and remains to be in the leading position in creating new standard of risk management in Mongolian financial market, further in promoting the integration of risk prevention and being in leading position in the risk management development of the financial institutions in local market.

The Bank's risk management framework is aim to develop its risk management infrastructure within good corporate governance principles and to focus on competently managing bank's primary risks including credit risk, market risk, liquidity risk, operational risk and compliance risk.

The risk management infrastructure of the bank and development of corporate governance

During 2011, the bank has successfully executed a variety of works within the concept of good governance. The bank strengthened our governance framework by creating the Chief Risk Officer position which resides to evaluate and independently report corporate governance development, risk management methodology, and risk profile to the Board by a certain time interval whilst the bank has established Risk Management Committee and approved its working guideline as well as its composition of members. As an independent infrastructure development is clearly defined in structure of the bank, it becomes a fundamental basis to work according to better corporate governance concepts.

The Bank constantly develops a plan which improves the concepts of good corporate governance structure and sets up the following principles in the bank according to rules and standards of international banks and financial institutions.

1. To improve the competitiveness of staffs;
2. To create adequate resource and process with having good working conditions and environment;
3. Ongoing education and development to improve staff professional skills and abilities;
4. To introduce an incentive system in wage and compensation to staff;
5. To develop an independent risk management and infrastructure;
6. Gain compliance of risk appetite amongst risk and business committees and business units within the bank;
7. To create an external validation on the process of corporate governance of bank;
8. Clear accountability;
9. Disclosure and transparency;
10. Trust, honest and fairness of all staffs.

Risk Management Committee

The Risk Management Committee has the fundamental task to approve risk appetite of the Bank within which all business units, other committees of the Bank monitor their risks, assess risk management methodology and further concentrate on bank corporate governance development and improvement.

The composition of Risk Management Committee is chosen by Board based on their work skills and experiences as an independent member is mandatory to work with governance principles.

During the reporting period, the Risk Management Committee has competently managed to predetermine the risks affected from social, economical, regulatory and environmental condition and to ensure efficient management on liquidity risk, market risk, credit risk and operational risk amongst the proper limits and risk appetite has been in place. The chairman of Risk Management Committee had regular discussion with Chief Risk Officer and General Auditor about the level and trends of potential risks, and also about the topics for the agenda of the Risk Management Committee meeting.

The main responsibilities of Risk Management Committee are as followed:

- Associated with well-established achievement on the generation of shareholder value and right, total level of risk or risk appetite is defined and approved.
- Monitor risk appetite and set the limits for the individual type of risk, through credit risk, market risk, operational risk and liquidity risk.
- Evaluate and monitor the level of development and profile of risk management of the Bank.
- Ensure that executive management and business units properly identify principal risks and that they are being appropriately managed.
- Introduce risk awareness ideology and culture under the well-defined program and maintain its implementation across the Bank.
- Assess corporate governance level, its main principles, establish program to develop good corporate governance principals, and monitor its implementation.

The Risk Management Department of the Bank monitors and reports about risk appetite and its implementation according to the decisions of Risk Management Committee.

Strategic risk management

The Bank evaluates the level of potential risks derived from macro-economical indicators, unemployment, inflation, fluctuation in gross domestic products, outlook of economical cycle, and takes risk-adverse actions. The bank also maintains risk management of financing policy onto driven economy sectors of Mongolia including mining, constructional and industrial enterprises by planning the risk-adverse actions to mitigate impending risk and to determine the potential risk level based on the perspectives, the volatility of basic indicators, legal environment and government policy.

During the reporting period, the net interest margin remained stable and profit percentage at the targeted level in competitive market was adequately managed. The Bank diversified its liabilities into low-interest rate resource and reduced the cost of overall liabilities. The bank has aimed to maintain its weighted average interest rate on loan book in line with alternative cost effective assets by selling its credit products more to small business markets and retail customers enabling higher margin. The result of this interest rate risk management and the efficient portfolio of asset and liabilities supported the bank to have net interest margin and profit percentage at a target level with increase of equity.

Alongside TDB has worked to set requirement on credit underwriting activity in connection with legal environment, economic cycle, supply and demand of products, competition in banking sector and with needs of customers, and to be more dedicated to reduce credit risk in bank activity.

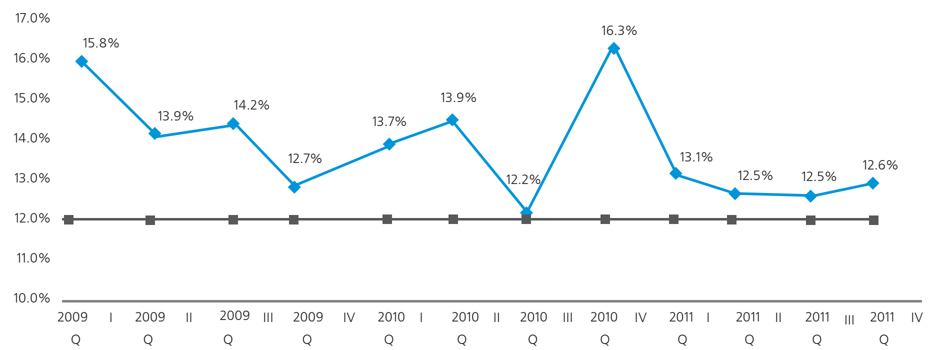
Moreover, TDB has been working in response to the potential risks due to the adverse effect of inflation growth and also has been conducting a successful management of potential risks by having the valuation of collateral assets and properties for loans in connection with real situation, in the light of preventing bubble sign in construction sector. The Bank has worked to forecasting the price of consumer goods and fuel in a timely manner and based on the real business growth of customers, as the Bank has been working to identify real credit need of the borrowers within this framework.

In 2012, macro economy condition and legal circumstance will be influenced by inflation and possible bubble signs in real estate prices. Therefore, the Bank will be challenged to manage risks by heightening credit requirement on loan assessment in line of analyzing credit need of the borrowers more precisely and to maintain proper collateral policy. The Bank will continue to shape portfolio limits onto key economy sectors consistent with economy cycle and growth in light of risk management.

Capital management

In 2011, the TDB has continued to adequately maintain prudential ratios on capital adequacy forced by Bank of Mongolia and successfully managed the structure of balance sheet defining proper size of risk weighed asset. The minimum required capital ratios are: Tier 1 capital to risk weighed asset ratio of not less than 6 percent as well as total capital to risk weighed asset of not less than 12 percent.

Capital Adequacy Ratios (2009-2011)



TDB has started to alignment of pillars of Basel II principles, which is officially determined by International Basel Committee, in internal risk management framework based upon exerting own capacity. Besides that, the bank is on the way of assigning economic capital primarily within main risk categories of credit risk, market risk and operational risk, then to use the allocation of capital the Bank also has other works intended to reduce risk and prevent of loss.

Governance structure of risk management

Board of directors

Committee of risk management

- Valuate the process of risk management
- Define the infrastructure of required risk management
- Define the monitoring of risk management
- Approve bank's risk appetite

Deputy of CEO

Supervise the risk appetite

Risk management department

Committee of audit

- Discuss effectiveness of bank's internal audit
- Making assessment on fraud cases and weakness of internal audit

General auditor

Maintaining internal audit

Internal aud__it department

Asset and Liability commission

- Define the rational structure on asset and liability on balance sheet
- To ensure proper risk management in credit portfolio, liquidity and market risks is in place
- Compliance with risk appetite

Credit committees

- Making a decision which related with credit related proposals
- Improving loan portfolio quality
- Compliance with risk appetite

Operational risk sector

- Provide integrated methodology of risk identification, measurement, monitoring and managing in operational risk management
- Compliance with risk appetite

Credit risk | **Market risk** | **Operation risk** | **Liquidity risk**

RISK MANAGEMENT OF THE BANK

Credit risk management

Credit policy: TDB formulates its credit policy associated with economic indicators, environment, business cycle and monetary market condition and under the concept of International Basel Committee. In reporting period, Bank's credit policy has been oriented to have enhancement on the credit portfolio within robust risk management structure. As therefore, the credit portfolio of the bank reached to targeted level and loan portfolio quality has revealed dramatically, which demonstrates the Bank have been in implementation of appropriate policy held in reporting period.

Within good risk management policy, the Bank has been engaged to encourage the business of customers with abundant capacity, and has expanded the cooperation with new borrowers and customers due to policy of the bank. Besides that Bank has established the requirements for borrower according to risk rating module that has affected the growth and quality of portfolio.

Credit appraisal: Since 2005, TDB has been in implication of assessment on borrowers in internal rating module under requirement of International Basel Committee which supports risk managers to rank and value the borrowers in accurate mode, and introducing internal rating system in the Bank was the first amongst the financial market in Mongolia.

TDB has importantly been disciplined to solve the credit request of borrowers as quickly as possible and as to determine credit need and interest rate on credit proposals based upon accurate study of financial capacity, collateral constant business progression and to provide financial and risk management consultation to the borrowers in line of efficient mutual cooperation.

Credit approval of proposal: Decision of credit approval made by the Bank's credit committee and official independent delegation from risk management area in accordance with corporate governance concept is crucial to have important role of observing risky issues in credit proposals.

Review process and risk management on problem loan: TDB is disciplined to review after loan disbursement in timely manner as much related to the risk level of borrower, specialty of business, and experience on that field, which ultimately differentiate the bank from the competitors to maintain good quality of credit portfolio..

The timeline of review date after loan disbursement is discussed by credit committee and the Bank elaborates a set of plans to prevent the risk on loan repayment if risk level is more than expected.

If the bank considers that there is a serious problem and difficulty on repayment of credit facility, the bank downgrades the classification of loan along with procedure of "asset classification and loan loss provisions" sanctioned by President of Bank of Mongolia and Ministry of Finance. As for risk management perspective, the bank prepares action plan for loan repayment depending on risk of the problem loans and constantly monitors fulfillment of it.

The bank takes the various steps on problem loans in the purpose of full repayment and as result of productive activity to drop down NPL ratio embraced in 2011, past due loan and NPL ratio in overall loan portfolio dropped down as at 0.52% and 2.47% respectively in 2011, which was 3.53% and 4.12% in 2010.

As at 31st Dec, 2011 the past due loan and non-performing loan (NPL) total decreased by 6.97% compared with 2010, which proves credit risk management and credit monitoring after advance that was upheld in 2011 was proper and effective.

Risk management on collateral: Bank develops the policy on collaterals for credit facilities within the purpose of defining collateral type, requirements, evaluation procedure and preventing of risks from collateral. Collateral type and content differs associated with business capacity and ability to repay the facility. By end of 2011 the collateral coverage ratio against overall credit portfolio in the bank has became 185% which shows the loan portfolio was adequately secured.

The collateral evaluation is done independently by Collateral Analysts of Risk Management Department and the analysts do collateral evaluations more precisely based on the collateral evaluation methods of income and expense comparison approaches and market value approach.

Loan portfolio risk management: In line with disclosure of risks on credit portfolio, the bank determines its default probability based upon mathematic and statistical method, focuses on estimating its expected losses. In the reporting period, the bank started to take into account probability of customer defaulting (PD) at particular point in time and the amount estimated as not recoverable as loss given default (LGD) based on historical data and research in terms of principal concept of Basel II discipline from IBC, which was advanced solution of managing credit risk along with international standard.

Using this methodology, the bank has been able to define proper lending limits on economic sectors based on estimations of borrower's expected losses and correlations.

Under the framework of the bank policy, the bank have established limits to maintain in credit portfolio exposure of single industry within overall credit portfolio in the bank.

Stress test and scenario analysis: The bank has comprehensive stress testing framework on cash inflows of loan portfolio using the worst case of stress test and scenario analysis based on historical data. The bank's stress testing and scenario analysis are designed to define risk levels on the business activity of the bank, as planning to be prepared under this circumstance and reduce the risks.

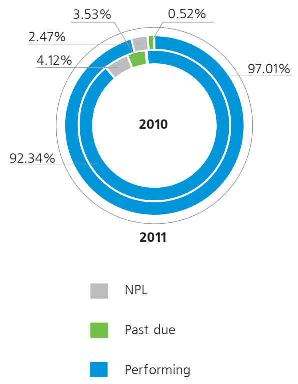
Liquidity risk management and its framework

In 2011, TDB has developed and updated its liquidity risk management method based on the Bank of Mongolia and Basel Committee requirements and international practical recommendations. Focus of fundamental changes was designed to assess the framework of managing liquidity of the bank in a frequent manner with due scrutiny.

Under the liquidity risk management framework, the bank manages its liquidity risks by maintaining required levels of reserves of adequate level and continuously upholding prudential ratios according to the Bank of Mongolia, and analyzing the liquidity risk in accordance with GAP management. In general, liquidity framework is designed to deliver the appropriate term and structure of funding consistent with the liquidity Risk Appetite set by the Risk Management Committee.

Within the framework of liquidity risk management, the bank analyzes and manages its liquidity risk through following conditions and takes proper actions of risk mitigation.

Loan portfolio quality in 2011 was as follows.



1. Normal condition: The condition when the liquidity ratio which is set by the bank and the other required indicators are within the limits and ratios
2. Abnormal condition: The market condition is normal, the bank has not faced definite difficulty on liquidity, but liquidity ratio set by the bank, and other requirement indicators are beyond the set limit, but low cost action is possible for balance sheet optimization.
3. Severe condition: The market condition is unstable, the liquidity ratio and other requirement indicators are beyond the set limit. This condition will cause pressure on bank's liquidity capacity and balance sheet reduction and business limitation is proscribed.

During 2011, TDB has adequately managed liquidity risk within normal condition and proper structure of asset and liability has properly been in place.

Limits of liquidity risk management.

TDB employs a number of ratio limits in liquidity risk management. These limits serve to control overall extent and composition of liquidity risk. The Bank maintains limits on the following primary liquidity ratios according to international standard and requirements.

Solvency ratio of a bank

TDB defines and maintains the liquidity ratios in accordance with standard and guideline of international rating agency Moody's requirement, which results in the Bank having an appropriate asset structure to mitigate liquidity risk of the bank. It shows that TDB meets international standards in internal activity.

Structure of asset and liability ratio

In line with the core principle of the liquidity risk management, the Bank maintain cash inflows greater than outflows in a short term period, as it is of vital important the Bank in a position of having sufficient liquid assets in order to fulfill contractual obligation on deposit withdrawals of customers on time. On the other hand, the bank also maintains proper ratios of liquidity on the level of cash inflows and outflows for a longer term period.

Fund concentration

In order to reduce concentration risks of funding, the Bank sets concentration limits and maintains them at an appropriate level. As well, the Bank aims to diversify its funding sources and has diversified its funding base by issuing long term bonds on the international market.

Ratio on net and cumulative Gap

The bank determines required cash reserve as liquid asset in the discrepancy of cash outflow and inflow, then focuses on imposing limits on net and cumulative Gap.

Liquidity stress test

Under the liquidity framework, TDB runs stress tests, scenario analyses as well as determines the methodology of managing risk in the worst case for the purpose of having awareness of any sudden case of facing liquidity risk arising from the un-expected effect from internal and external factors. The primary focus on defining market condition in the stress test is to estimate the reserve capital level and potential to overcome exceptional case and to formulate possible solutions and methods to overcome. This helps the Bank to be prepared and tested if the bank were to face a worst case liquidity risk scenario.

Contingency funding plan

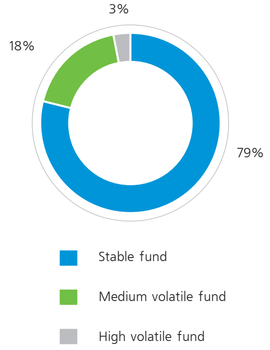
During the reporting period, TDB has updated its contingency plan for liquidity crunch that meets with international standard. Main concept of this plan is to have identification of early warning signals before severe circumstances in banking liquidity and to reflect methods and ways to manage this successfully.

Funding structure

The Bank's funding structure is to develop diversified funding base and maintain access to a variety of alternative sources. The Bank has focused on analyzing the fluctuation of sources categorizing them in to 3 types depending on their volatility, such as high volatile funds, medium volatile funds and stable funds. It helps the Bank to manage its asset and liability in a more efficient and accurate manner.

It is summarized that 79 percent of total funding is in stable modes which shows that the Bank has abundant resource of stable funds and able to borrower and have allocation towards longer term of assets.

The bank funding structure in fluctuation



Market risk management

Market risk is the risk of the bank suffering financial loss due to the bank being unable to hedge its balance sheet at prevailing market levels. The bank can be impacted by changes in volatility of prices e.g. interest rates, commodity prices, and foreign exchange rates etc.

Interest rate risk management

TDB manages interest rate risk by analyzing effect on net interest margin and base rate from market interest rate changes.

During the reporting period, the bank has established the module to build more advanced framework and method of estimation in banking base rate, and calculate risk premium of borrowers on those base rates consistent with the risk level, perform sensitivity analysis on interest rate changes. As result of successfully embedding this methodology in interest rate risk management framework, the Bank will have an opportunity to measure prospective interest rate changes in time interval and pre-determine earnings and loss arising from the changes of interest rates in assets and liabilities.

Furthermore, it was possible to make stress test and scenario analysis on interest rate risk.

Exchange rate risk management

In 2011, TDB has performed various types of works in a framework of foreign exchange rate risk management, as followed:

Foreign exchange risk in trading book

VAR (Value at risk) methodology was pioneered by TDB in 2003 which has been permitted by Bank of Mongolia for commercial banks to measure losses on trading book from fluctuation of exchange rate, and we have been measuring foreign exchange risk by this method on our trading book since 2003.

In this context, the Bank has started to make alignment of EWMA, EGARCH, Monte Carlo and Historical simulation for measurement of expected losses on trading book from foreign exchange rate changes in order to manage foreign exchange risk of the Bank more effectively and more realistically.

Backtesting of VaR during the reporting period

For measuring whether loss from banking commercial package is being properly determined or not, we use "back testing" method. As a result, we daily monitor the amount of loss exceeded from VaR restriction which is disciplined within the control of acceptable level in certain confidence level or criterion forced by Bank of Mongolia. During the reporting period, result from back testing was in "green zone" criterion from the Bank of Mongolia.

Result from VaR method back testing during the reporting period

Backtesting (250 days)	Criterion from Bank of Mongolia	
	Exceeded number	Zone
VaR value (confidence level 99%)	2	Green

Green zone (which is interval refers to 3-4 of exceeding of limits): Model is considered as an realistic.

Stress scenario analyzes

In order to measure potential exceptional loss in the trading book, the bank calculates expected loss on the trading book under making stress testing condition or strong fluctuation and occurrence in exchange rate in compliance with Bank of Mongolia which suggests estimating expected loss or identifying risk using extreme value theory. In this way, we regularly inform un-expected losses from this type of strong fluctuation to the executive officers of the bank and competently manage the risk competent.

Counterparty risk management

TDB runs its activities by building up dimension for cooperating with corresponding banks in domestic the and international market, as managing the counterparty risks of those by imposing trading limits in the connection of foreign and domestic market scale, feature of business activity and development and prosperity of residence country.

During the reporting period, we have strengthened the cooperation with those organizations, categorizing and widening its dimension and measured prospective risk level.

Reputational risk and its management

All staff and officials of TDB adhere to a complex policy to provide risk management, ethical rules and rules set by Administration and Human Resources Office which delivers cordial respect for rights and interests of bank clients and owners of savings supports raising the Banks reputation in society and contributes to the proper management of reputational risk. All staff, personnel and officers have attended ongoing course and discussion forum for ethical rules and their importance and we have paid much attention on understanding the culture and features of the banking organization as well as endeavoring to raise its reputation deliberately during the reporting period.

Compliance risk management

TDB has elaborated and adheres to a internal policy and procedure "Anti-money laundering and counter terrorism financing" which is accepted in the sphere of requirements by Mongolian as well as International regulatory organizations.

In line of working through anti-money laundering and counter terrorism financing, we follow the standard requirements and regulation issued by internationally regulatory and local organizations that helps us to have a comprehensive black list of countries, and any suspicious transaction made through these countries have been in control for anti-money laundering purpose.

Know your customer and customers risk assessment processes are completed in accordance with international standards as well.

We constantly organize trainings on anti-money laundering and counter terrorism financing and manage its risk among all staffs which create an environment to provide necessary information more precisely to our customers.

Operational risk management

TDB created the first framework of operational risk management in local banking industry and opened operational risk management unit that carries out scheduled plan for the risk identification and risk assessment process of the Banking products and services based on the method of "Risk assessment and its monitoring" and evaluates risks as divided into particular groups under the international standards and Basel principles as well as implementing and developing possible methods and options to monitor the risks.

For the purpose of preventing from the potential operational risk, we created "consultancy database" under the recommendation provided by the Operational Risk Management unit and use to manage risks, and make extension on program "risk management" based on method of managing risks among structural line from bottom to top along with the task of having registration of information flow from front office to risk analyst in prompt manner.

TDB has also organized consecutive actions for updating customer's data in system and maintaining completeness of the customer file under the purpose of risk management task.

As a leading commercial bank in Mongolia, TDB has focused on disclosing counterfeit bank notes or traveler's cheque and delivering them to the related legal authority as well as providing recommendations to the customers to have awareness of this kind of risk.

To improve IT risk management, the risk analyst in charge of IT was appointed as working to provide system information confidentiality, risk identification on the internet services as well as IT risk prevention.

Further, according to the International Basel principle, we have planned to create internal module and methodology in order to identify and measure any un-expected losses from operational risk in broad data base about risks.

Planned work in risk management area in 2012

During the period, our bank will carry out our activities for learning internationally recognized risk management methods and techniques, delivering professional skills of the risk experts and specialists to an international standard, evaluating and concluding the principles and importance of good governance and conducting comprehensive plan for bringing banking governance development to an international standard and ensuring its implementation. Within the framework of this plan, we will focus on cooperating with international certified associations and studying their experience.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

Trade and Development Bank constantly makes investment to expand its information technology, infrastructure paying special attention to information security and confidentiality.

In 2011, the business operation of TDB expanded significantly as it opened 18 settlement centers, installed 20 ATMs, established online connection with other partnering organizations and expanded the information technology infrastructure. The Bank's backup center has been transferred and reorganized with high capacity server system and high speed fiber optic cable.

Moreover, technological renovations were made to ensure information security, and database is now transferred to the backup center real time online. In the reporting year, several big scale works have been conducted regarding information security and confidentiality and introduction of international standards. For instance, an audit to meet International Information Security Standards was conducted and respective measures were taken in addition to renewing information security equipment.

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES MANAGEMENT

For TDB, 2011 was a year of intensive growth in operation and service scope and therefore, the human resource policy, operation and management aimed to a creation of human resource quantity and quality growth that can meet this growth through achieving mission statement of the Bank.

In the reporting period, human resource activities targeted on following main components:

> Human resource planning, recruitment and development aimed to achieve the Bank's strategic objectives and business plan in the midst of its growing operations and scope, and to employ, train and develop skilled staffs that will execute current and future banking products and services with excellence and to recruit Right and Valuable employees within its workforce. A survey indicates that the number of employees increased by 25.9% and the number of new hired employees increased by 68.6% as compared to 2010, and thus, the total number of employees of the Bank reached to 1000.

> To improve the structure of key performance evaluation system which is based on employees' ethics, initiative, productivity and contribution to the Bank's development and business.

> To further strengthen our commitment to a philosophy which recognizes that all employees understand and take pride in being the Bank's valuable asset and while doing so, we aim to improve our corporate culture through increasing the culture of each of the employees, the Bank's valued assets.

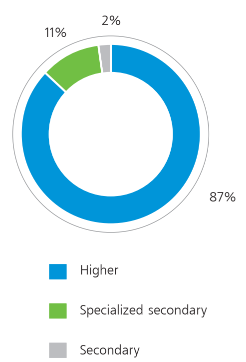
The Bank has a stable system of filling up the vacant workplace with the best possible applicants from both domestic and overseas labor market. The main function of the human resource policy is to utilize its domestic resources and in doing so, the Bank aims to attract, retain and motivate talented staff, and to develop and enhance employees' skill sets by providing variety of training opportunities for their career development.

Training is prime importance for staff development and one of the Bank's main components of the Human Resource policy. For the purpose of training and assisting the newly hired and appointed employees to the formation and development of the business culture at TDB in a short period of time, the Bank provides consistent learning curricula including the new employee orientation, adaptation program, on-job training, as well as conducts seminar-trainings for staff and managers for related units and branches, such as distance learning programs and numerous job trainings.

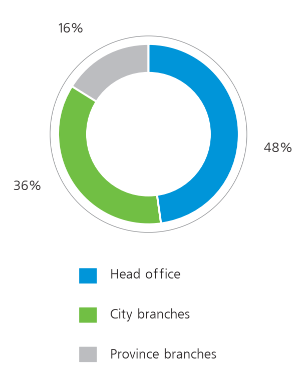
Anybody who joins the team of TDB has the opportunity to develop him/herself individually, educationally as well as professionally since the TDB is a trainee bank while retaining a secure supply of skilled, committed employees.

The Bank retains a secure supply of skilled, committed employees who are well educated and capable of working at any level of responsibilities for current and future management positions while more than 80% are being up to age of 35 and total bank employee's average age is 30.

Employees education level

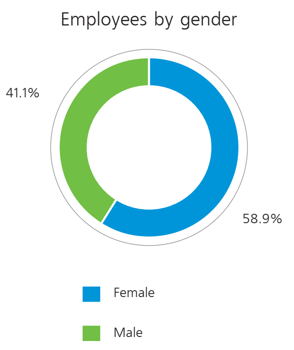


Composition of employment



The Bank holds well established health and social responsibility objectives for its employees in its Human Resources policy allowing opportunities such as mortgage and salary loans with discounted terms and annual salary and incentive program based on performance, market competition, and changes in macro and micro economic condition. Moreover many activities which include maintenance of the appropriate health and work friendly environment, organizational active involvements of employees in sports and cultural events, appointments of employee recognitions (Government and Sector) and remunerations, arrangements of rewards to travel locally and overseas are performed under the Bank's Human resource policy.

For the year 2011, one of 8-9 employees were awarded and 11.6% of employees were recognized by the Government and Sector officials.



Main target goals for the year 2012

- To maintain the pride and value of" TDB Culture" among employees
- To implement a complete project with purpose of maintaining employee's engagement, commitment, contentment among TDB's employees, deemed as fundamental essential to Bank's success.

SPORT SUCCESSES AND ACHIEVEMENTS OF TDB

Financial year 2011 was successful and proud achievement year for Trade and Development bank.

Sports:	Name:	Organized date:	TDB success
Basketball	"Banker-2011" competitions	10-15 May, 2011	In 2011, we have strengthened our success once again and our male and female athletes won "Championship"
Ping pong	10th table tennis competition of commercial banks	19 November, 2011	Around 60 athletes of 8 commercial banks participated in competition and our team won in result of total scores of organization.
Volleyball	Traditional volleyball championship of commercial banks	5 December, 2011	7 banks' teams participated in competition and TDB's team successfully participated. Our male team won 2nd place and best awards.
Football	4th football competition of commercial banks	26-27 March, 2011	12 teams of finance and bank sector participated and our bank team won silver medal.
	9th football championship of commercial banks	10-11 December, 2011	Our team became champion of football competition of commercial banks in 2011 and won the Cup. Also our athletes became best goal keeper and best striker.
Billiard	11th competition of billiard between Bank of Mongolia, and commercial banks	28 November, 2011	Our bank team successfully participated and won 1st place and Cup.

SOCIAL RESPONSIBILITY

TDB cooperated with and made investment of MNT 1.5 billion in the following sectors within the framework of its social responsibility measures 2011.

> Sponsored the nationwide "Mongolian Dream Team" basketball competition which was organized among students of 750 secondary schools throughout the country.

> TDB, an active promoter of culture and education sector, provided financial support for the 8th grader of Music and Dance College of Mongolia, G.Bolormaa, for her participation in International M.Magin Piano Competition held in Paris, France.

> Participated in the new year celebration of 29th Special secondary school of developmentally challenged students and handed new year presents to over 380 students as our tradition.

> Sponsored and participated in strategically important forums, conferences, and events such as Introduction of Comprehensive Interbank Import Credit Facility with Korea Exim bank (April), Listing in Hong Kong (April), Frontier Capital Raising Conference (June), Singapore-Mongolia Business Forum (June), Korea's economic success: Strategies, challenges and lessons for Mongolia (August) and mining investment forums and conferences organized in Mongolia such as Discover Mongolia (September), Coal Mongolia 2011 (February), Metals Mongolia 2011 Forum (November), Mongolia Economic Forum (March), Mongolia Trade & Commodity Finance Conference (October), Made in Mongolia -2011, and Auto expo – 2011.

> Provided financial support for talented pianist and 9th grader of Music and Dance College of Mongolia, Ch.Esunkhand, for her piano concert tour.

> Promoted the selling of Christmas tree decoration made by developmentally challenged people.

> Sponsored the award ceremony of mining sector professionals - "Mining Journal Award"

> Supported and sponsored the "Red Rose" dance group of Institute of Finance and Economics for its participation in the Dance World Cup competition organized in Braunschweig, Germany representing Mongolia.

> Sponsored the first sports game "Friendship 2011" organized among representatives of diplomatic organizations, embassies, and foreign nationals residing in Mongolia.

> Sponsored "Duulian-2020" indoor football game supporting juvenile football players.

> Provided financial support for the organizing of "4th Meeting of Merchants", "Photo exhibition" and "National Wrestling Competition" which were organized on the occasion of the 90th anniversary of Mongolia's Trade Sector.

> Provided financial support for Food and Agricultural Association on the occasion of national tree planting day

> Supported and sponsored "Hope Football" club for its participation in "Norway Cup 2011", a youth football game held in Oslo, Norway.

> In scope of protecting cultural heritage of the Mongols, TDB provided financial support for the release of CDs and DVDs of magnificent Mongolian Folk Arts which amazes the world.

CORRESPONDENT BANKS

NO.	BANK NAME	LOCATION	SWIFT	CURRENCY	ACCOUNT NO
1	AGRICULTURAL BANK OF CHINA	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	Huhhot, CHINA	PCBCCNBJNME		15014150509220100065
8	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA		0610040629200091076
9	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111840718000000007
10	BAO SHANG BANK	BAO TOU, CHINA	BTCBCNBJXXX		001638896800060
11	OCBC BANK	SINGAPORE	OCBCSGSG		503-071441-301
12	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111840900000000008
13	JSC VTB Bank	MOSCOW, RUSSIA	VTBRRUMM		30111840855550000000
14	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF		400878500800 USD
15	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	EUR	400878500801 EUR
16	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010		301-0104154-57-EUR
17	CREDIT SUISSE	ZURICH, SWITZERLAND	CRESCHZZ80A	CHF	0835-0993850-73-000
18	BANK OF TOKYO-MITSUBISHI UFJ LTD	TOKYO, JAPAN	BOTKJPJT	JPY	653-0439924
19	MIZUHO CORPORATE BANK LTD	TOKYO, JAPAN	MHCBJPJT		5793010
20	HSBC BANK PLC	LONDON, UNITED KINGDOM	MIDLGB22	GBP	00334567
21	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	KRW	0963 FRW 001000043
22	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	CNY	05710101040021997
23	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	Huhhot, CHINA	PCBCCNBJNME		15001658408052501192
24	BAO SHANG BANK	Baotou, CHINA	BTCBCNBJXXX		001638896800010
25	Pudong Development Bank of Shanghai	Shanghai, China	SPDB CNSH XXX		99010154100000100
26	BANK OF CHINA (HONG KONG) LIMTED	Hong Kong, China	BKCHHKHH		012-875-60117544
27	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA		0610040629200090972
28	HSBC BANK AUSTRALIA LTD	SYDNEY, AUSTRALIA	HKBAAU2S	AUD	011-795630-041
29	Canadian Imperial Bank of Commerce	TORONTO, CANADA	CIBCCATT	CAD	1820613
30	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM	RUB	001201442 RUR 400202
31	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111810918000000002
32	JSC VTB Bank	MOSCOW, RUSSIA	VTBRRUMM		30111810455550000203
33	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111810800000000015
34	HONGKONG AND SHANGHAI BANKING CORPORATION LTD	AUCKLAND, NEW ZEALAND	HSBCNZ2A	NZD	040-013294-261
35	HANG SENG BANK LTD	HONG KONG	HASEHKHH	HKD	250-012796-001
36	OCBC BANK	SINGAPORE	OCBCSGSG	SGD	517-123360-001
37	NORDEA BANK AB	STOCKHOLM, SWEDEN	NDEASESS	SEK	39527705290 080502

INTERNATIONAL RELATIONSHIPS

Asian Development Bank	ADB
ING Bank	ING
Korean Eximbank	Korea Eximbank
Commerzbank	COMMERZBANK
BNP Paribas	BNP PARIBAS
UniCredit Bank	UniCredit Bank
VTB	VTB
Industrial and Commercial Bank of China	ICBC
The Export-Import Bank of the Republic of China	The Export-Import Bank of the ROC
Russian Agricultural Bank	Russian Agricultural Bank
Agricultural Bank of China	中国农业银行 AGRICULTURAL BANK OF CHINA
Sumitomo Mitsui Banking Corporation	SMBC SUMITOMO MITSUI BANKING CORPORATION

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Financial Statements

31 December 2011 and 2010
(With Independent Auditors' Report Thereon)

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.Erdenebileg (Chairman) R.Koppa D.Batjargal T.Tsolmon Ch.Enkhbold
Secretary of Bank	D. Davaajav Independent auditors KPMG Samjong Accounting Corp. Seoul, Korea

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Independent Auditors' Report

The Board of Directors and Shareholders
Trade and Development Bank of Mongolia LLC

We have audited the accompanying consolidated 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 2011 and 2010, 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 Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view 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 of consolidated financial statements that give a true and fair view 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 policies 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 2011 and 2010, 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 Matter

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.
22 March 2012
Seoul, Korea

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Financial Position

31 December 2011 and 2010

	Note	2011 MNT'000	2010 MNT'000
Assets			
Cash and due from banks	4	474,964,634	553,467,811
Investment securities	5	347,770,318	260,735,448
Investment in an associate	6	2,275,956	-
Loans and advances, net	7	1,123,331,907	464,466,630
Bills purchased under resale agreements	8	36,966,114	-
Subordinated loans	9	7,000,000	7,000,000
Property and equipment, net	10	79,144,992	19,811,084
Intangible assets, net	11	433,398	655,894
Foreclosed real properties, net	12	579,190	977,345
Other assets	13	17,573,180	31,765,857
Total assets		2,090,039,689	1,338,880,069
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits from customers	14	1,277,295,962	919,944,749
Deposits and placements by banks and other financial institutions	15	35,063,555	53,584,874
Bills sold under repurchase agreements	16	171,484,469	-
Borrowings	17	174,380,516	50,678,147
Current taxes payable		1,501,188	1,481,974
Debt securities issued	18	207,134,041	173,280,281
Subordinated debt securities issued	19	41,693,522	31,218,538
Other liabilities	20	42,071,592	20,398,957
Total liabilities		1,950,624,845	1,250,587,520
Shareholders' equity:			
Share capital	21	6,610,113	6,610,113
Share premium		7,392,191	7,392,191
Treasury shares	22	(6,001,872)	(6,001,872)
Revaluation reserves	10	18,702,066	13,418,276
Unrealised gain on available-for-sale financial assets	5	3,736,050	-
Retained earnings		108,976,296	66,873,841
Total shareholders' equity		139,414,844	88,292,549
Total liabilities and shareholders' equity		2,090,039,689	1,338,880,069

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2011 and 2010

	Note	2011 MNT'000	2010 MNT'000
Interest income	23	143,500,481	89,212,736
Interest expense	24	(95,359,061)	(60,062,936)
Net interest income		48,141,420	29,149,800
Net fees and commission income	25	12,134,233	6,852,031
Other operating income, net	26	14,176,216	9,277,305
Net non-interest income		26,310,449	16,129,336
Operating income		74,451,869	45,279,136
Operating expenses	27	(20,071,451)	(18,578,760)
Share of profit of an associate	6	74,955	-
Impairment losses	28	(3,070,865)	(1,725,360)
Profit before tax		51,384,508	24,975,016
Income tax expense	30	(9,282,677)	(4,277,777)
Net profit for the year		42,101,831	20,697,239
Other comprehensive income for the year:			
Gain on change in valuation of available-for-sale financial assets	5	3,736,050	-
Revaluation gain on property and equipment	10	5,284,414	-
		9,020,464	-
Total comprehensive income		51,122,295	20,697,239

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Changes in Equity

For the years ended 31 December 2011 and 2010

	Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	Revaluation reserves MNT'000	Unrealised gain on available-for-sale financial assets MNT'000	Retained earnings MNT'000	Total MNT'000
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
Sale of treasury shares	22	-	-	454,360	-	-	-	454,360
Amount transferred to retained earnings	10	-	-	-	(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
1 January 2011		6,610,113	7,392,191	(6,001,872)	13,418,276	-	66,873,841	88,292,549
Net profit for the year		-	-	-	-	-	42,101,831	42,101,831
Gain on change in valuation of available-for-sale financial assets	5	-	-	-	-	3,736,050	-	3,736,050
Revaluation gain	10	-	-	-	5,284,414	-	-	5,284,414
Amount transferred to retained earnings	10	-	-	-	(624)	-	624	-
31 December 2011		6,610,113	7,392,191	(6,001,872)	18,702,066	3,736,050	108,976,296	139,414,844

Consolidated Statements of Cash Flows

For the years ended 31 December 2011 and 2010

	Note	2011 MNT'000	2010 MNT'000
Cash flows from operating activities:			
Net profit		42,101,831	20,697,239
Adjustments for:			
Depreciation and amortisation	10, 11, 27	2,218,699	2,473,750
Share of profit of an associate	6	(74,955)	-
Net interest income	23, 24	(48,141,420)	(29,149,800)
Income tax expense	30	9,282,677	4,277,777
Gain on disposition of property and equipment		(351)	-
Property and equipment written off	27	302	2,258
Impairment losses	28	3,070,865	1,725,360
Operating profit before changes in operating assets and liabilities		8,457,648	26,584
Increase in loans and advances	7	(662,841,490)	(58,393,449)
Decrease (increase) in other assets (*)	13	18,129,030	(12,448,853)
Increase in deposits from customers	14	357,351,213	340,421,971
Increase (decrease) in deposits and placements by banks and other financial institutions	15	(18,521,319)	22,115,633
Increase (decrease) in other liabilities (*)	20	14,656,679	(184,550)
Increase in minimum regulatory reserve requirement with Bank of Mongolia	4, 32	(119,348,252)	(18,535,546)
Decrease in short-term deposits	32	2,949,865	16,640,593
Interest received		141,516,264	81,795,098
Interest paid		(87,418,713)	(57,256,310)
Income taxes paid		(9,263,463)	(4,139,389)
Net cash flows provided by (used in) operating activities		(354,332,538)	310,041,782
Cash flows from investing activities:			
Purchase of investment securities	5	(85,431,472)	(168,891,248)
Net sale (purchase) of bills purchased under resale agreements	8	(36,966,114)	799,556
Purchase of property and equipment	10	(56,033,312)	(1,233,200)
Purchase of intangible assets	11	(264,336)	(358,878)
Proceeds from disposal of foreclosed real properties	12	1,283,019	819,716
Proceeds from disposal of property and equipment	10	252,000	889,720
Purchase of investment in an associate	6	(2,000,001)	-
Net cash flows used in investing activities		(179,160,216)	(167,974,334)

*Represents fluctuation of other assets and other liabilities other than changes in accrued interest receivables and accrued interest payables, respectively.

Consolidated Statements of Cash Flows

For the years ended 31 December 2011 and 2010

	Note	2011 MNT'000	2010 MNT'000
Cash flows from financing activities:			
Net proceeds from (repayments of) borrowings	17	123,702,369	(2,623,846)
Proceeds from bills sold under repurchase agreements	16	171,484,469	-
Proceeds from debt securities issued	18	32,962,459	113,475,566
Proceeds from subordinated debt securities issued	19	10,441,893	31,214,570
Disposal of treasury shares	22	-	454,360
Net cash flows provided by (used in) operating activities		338,591,190	142,520,650
Cash flows from investing activities:		(194,901,564)	284,588,098
Net cash flows used in investing activities		498,188,028	213,599,930
Net cash flows used in investing activities	32	303,286,464	498,188,028

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 ("BOM") on 29 May 1993 in accordance with the Banking Law of Mongolia, and License No.8 was renewed by BOM 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 22 branches and 20 settlement centers.
The Bank established TDB Capital LLC ("TDBC" or the "Subsidiary"), a 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 are not limited to, brokerage and underwriting services to various customers. The accompanying consolidated financial statements as at and for the years ended 31 December 2011 and 2010 comprise the Bank and its subsidiary (together the "Group").

The direct parent company of the Group is Globull Investment and Development SCA ("Globull"), owns a 65.83% interest in the Group and is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC ("US Global"), which is incorporated in the United States of America. US Global is a consortium owned by Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Group), and it had directly owned approximately 6.38% of the Group prior to 2010. During 2010, the Group sold 30,700 treasury shares (or 0.93% interest) out of its total 314,577 treasury shares to US Global. As a result, US Global's ownership in the Group directly and indirectly through Globull amounted to approximately 73.14% as of 31 December 2011 and 2010. In addition, approximately 18.27% of the Group's total outstanding ordinary shares are owned by various individuals as of 31 December 2011 and 2010.

In February 2012, the Group sold 157,862 treasury shares, representing approximately 4.78% of the total issued and outstanding ordinary shares, to GS Mongolia Investments Limited, incorporated in the Federal Territory of Labuan, Malaysia, for USD 11,000,000.

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 ("IFRS") as modified by the BOM guidelines.

The major items that are not in compliance with IFRS include the following, 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 22 March 2012.

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
- Certain property and equipment are measured at fair value subsequent to acquisition

Functional and presentation currency

These consolidated financial statements are presented in Mongolian Togrog ("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 judgments, 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.

Significant areas of estimation uncertainty and critical judgments of the Group in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are allowance for loan losses and valuation of financial instruments.

New accounting standards adopted

(i) mprovements to IFRS 2010 – Amendments to IFRS 3 Business Combination

The Group has adopted improvements to IFRS 2010 — Amendments to IFRS 3 Business Combination, effective 1 January 2010. The amendments 1) clarify that contingent consideration 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 amendments to IFRS 3 did not have any impact to the Group's consolidated financial statements.

(ii) Improvements to IFRS 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements

The Group has adopted Amendments to IAS 27 Consolidated and Separate Financial Statements, effective 1 January 2010. The amendments require the effects of all transactions with non-controlling 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 recognised 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 recognised 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 Financial Instruments: Recognition and Measurement. The Group's adoption of amendments to IAS 27 did not have any impact to the Group's consolidated financial statements.

(iii) Improvements to IFRS 2011 – IAS 24 Related Party Disclosures

The Group has adopted Revised IAS 24 Related Party Disclosures, effective 1 January 2011. The objective of IAS 24 is to ensure that the entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profits or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. The Group's adoption of IAS 24 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

(i) Subsidiary

A subsidiary is an entity controlled by the Group and the financial statements of each subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Investmentinanassociate

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investment in an associate is accounted for using the equity method and is recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of an associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 consolidated statement of financial position date. Foreign exchange differences arising on translation are recognised in the consolidated 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 profit or loss.

Derivatives recorded at fair value through profit or 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 an 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) the embedded derivative does not meet the separation 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 an allowances to reflect the estimated recoverable amounts. The allowance is estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and the 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 not designated at fair value through profit or loss or as available-for-sale. This includes certain investment securities held by the Group.

Available-for-sale assets are financial assets that are neither held for trading purposes, nor held to maturity.

(ii) Initial recognition

A financial asset or financial liability is measured initially at fair value plus 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 profit or loss 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 recognised 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 derecognises 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 recognised separately as assets and liabilities, as appropriate. If control over the asset is retained, the Group continues to recognise 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 financial asset 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 derecognised when the obligation under the liability is discharged or cancelled 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 recognised in the consolidated statements of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in 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 reliably 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 has 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 in equity. 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 profit or loss as an impairment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each item of property and equipment. The estimated useful lives of property and equipment 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 consolidated statements 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 of intangible assets 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 with Regulations on Asset Classification and Provisioning jointly approved by the President of BOM and Ministry of Finance (BOM Provisioning Guidelines). Increases in the allowance account are recognised in profit or loss. 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 determining provisions. Such a model classifies the Group's loans and establishes allowances for loan losses at the rates of 0%, 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 shall be measured at the difference between the 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 determining credit classification include completeness of loan file, financial indicators of the borrower, value of the collateral and previous rescheduling of the loan, 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 reporting 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 consolidated statements of comprehensive income.

(ii) Assets other than loans and advances and cash and cash equivalents (continued)

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 as profit in the consolidated statements of comprehensive income.

Repurchase agreements

The Group enters into purchase (sale) 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 consolidated 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 consolidated statement of financial position 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 issuance 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 consolidated 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 assessments of the time value of money and, where appropriate, the risks specific to the liability.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Revenue

(i) Interest income

Interest income and expense is recognised in the consolidated statements of comprehensive income as it accrues, taking into account the effective yield of the asset or liability. 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 recognises 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 consolidated 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 consolidated statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated statements of comprehensive income as a deduction to the total rental expenses over the term of the lease.

Income tax

Income tax expense is comprised of current tax only.

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, the 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. BOM is planning to issue guidelines for commercial banks on the calculation of deferred tax assets and liabilities and recognises that current accounting practices for deferred taxes by commercial banks does not comply with IFRS.

Employee benefits

The Group does not provide severance benefits to its employees except for providing the 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 consolidated 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 IFRS, amendments to IFRS and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing the accompanying consolidated financial statements:

- The amendments to IFRS 7 Disclosures – Transfers of Financial Assets as well as the accounting pronouncements IFRS 9 and IFRS 9R Financial Instruments will be relevant to the Group but were not effective as of 31 December 2011 and therefore have not been applied in preparing these consolidated financial statements. The Group is currently evaluating the potential impact that the adoption of these new accounting pronouncements will have on its consolidated financial statements.

- In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are effective for annual periods beginning on or after 1 July 2012, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on presentation of its consolidated financial statements.

- In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, a revised version of IAS 27 Separate Financial Statements which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements, and a revised version of IAS 28 Investment in Associates and Joint Ventures which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

- Each of the standards are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted as long as each of the other standards are also early applied. However, entities are permitted to include any of the disclosure requirements in IFRS 12 into their consolidated financial statements without early adopting IFRS 12. The Group is currently evaluating the potential impact that the adoption of the standards will have on its consolidated financial statements.

- In May 2011, the IASB issued IFRS 13 Fair Value Measurement which establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 provides a revised definition of fair value and guidance on how it should be applied where its use is already required or permitted by other standards within IFRS and introduces more comprehensive disclosure requirements on fair value measurement. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

4. Cash and due from banks

	2011 MNT'000	2010 MNT'000
Cash on hand	50,082,881	35,987,964
Deposits and placements with banks and other financial institutions	168,120,730	286,797,880
Balances with BOM (*)	256,761,023	79,820,367
Deposits with BOM	-	150,861,600
	474,964,634	553,467,811

* At 31 December 2011, BOM requires that a minimum 11% of average customer deposits for two weeks (5% at 31 December 2010) must be maintained with BOM. In relation to the daily requirement, the Group also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2011 and 2010, the required reserve amount was MNT 168,064,650 thousand and MNT 48,716,398 thousand, respectively.

5. Investment securities

	2011 MNT'000	2010 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost (*1)	17,639,412	1,596,562
Equity securities, at fair value (*2)	24,846,858	-
BOM treasury bills (*3)	199,298,305	-
	241,784,575	1,596,562
Held-to-maturity investment securities		
BOM treasury bills	-	222,266,870
Government bonds	103,332,743	33,121,016
Asset-backed securities (*)	2,653,000	3,751,000
	105,985,743	259,138,886
	347,770,318	260,735,448

At 31 December 2011 and 2010, MNT 109,316,012 thousand and MNT 32,370,578 thousand of investment securities are expected to be sold in more than 12 months after the reporting date.

*Mainly represents notes issued by Mongolian Mortgage Corporation LLC ("MMC")

(*1) Unquoted equity securities represent investments made in unlisted private companies and are recorded at cost as there is no quoted market price in active markets and their fair value cannot be reliably measured.
The Group also holds a common stock call option which allows the Group to purchase an additional 10% of the total issued and outstanding common shares of an existing investee at an exercise price of USD 10,000,000 through June 2014. The option is classified and accounted for as a derivative financial instrument. The Group's investment in such equity securities does not have a quoted market price in active markets and their fair value cannot be reliably measured. Accordingly, the option has been recorded at cost which is deemed to be nil as of 31 December 2011.

(*2) During 2011, the Group acquired equity securities of an investee and classified them as available-for- sale investment. As of 31 December 2011, an unrealised gain of MNT 3,736,050 thousand arising from changes in the fair value of such investment was recognised directly in equity as other comprehensive income. The level within the fair value hierarchy in which the fair value measurement of such equity securities fall is Level 3 at 31 December 2011.

(*3) The Group classified BOM treasury bills as available-for-sale investment securities beginning from January 1, 2011 as the Group has positive intent to sell them before maturity. As of 31 December 2011, the fair value of BOM treasury bills approximated their carrying value, resulting in no unrealised gain or loss. The level within the fair value hierarchy in which the fair value measurement of BOM treasury bills falls is Level 2 at 31 December 2011.

6. Investment in an associate

	2011 MNT'000	2010 MNT'000
Investment in MMC	2,275,956	-

In 2009, the Group made a MNT 201,000 thousand investment acquiring approximately a 9.1% equity interest in MMC, which was previously included in investment securities as of 31 December 2010. MMC is currently engaged in acquiring mortgage loans issued by commercial banks and securitizing these mortgages by issuing mortgage backed securities. The Group made an additional investment of MNT 2,000,001 thousand on 4 August 2011. As a result of this transaction, the Group's ownership interest in MMC increased to approximately 31.6%. Effective 4 August 2011, the Group accounts for the investment in MMC under the equity method and recognised its share of profit of MMC of MNT 74,955 thousand in 2011. In applying the equity method, the Group used the financial information of MMC as of 30 June 2011 with adjustments made for the effects of any significant transactions or events occurring between 30 June 2011 and 4 August 2011, since the financial information of MMC as of the date of the additional acquisition of equity interest was unavailable.

7. Loans and advances

	2011 MNT'000	2010 MNT'000
At 1 January	14,003,824	15,122,602
Charge for the year	5,228,218	1,915,443
Written back/recoveries	(1,252,005)	(1,750,743)
Written off	(60,228)	(1,285,655)
Effect of foreign currency movements	-	2,177
At 31 December	17,919,809	14,003,824

Transfers of mortgage portfolios

In 2008, the Group transferred its mortgage loans with carrying amounts of MNT 404,864,410 or USD 294,334 to MMC in exchange for cash. In 2009, the Group transferred another pool of mortgage loans with carrying amounts of MNT 4,700,819,887 in exchange for the bonds issued by MMC. There were no mortgage portfolios transferred to MMC during 2011 and 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 for which the balance at 31 December 2011 and 2010 amounted to MNT 2,197,608 thousand and MNT 3,537,518 thousand, respectively.

8. Subordinated loans

	Purchase date	Maturity	Interest rate	2011 MNT'000	2010 MNT'000
Ulaanbaatar City Bank ("UB City Bank")	30 Dec 2011	2 Jan 2012	11%	36,966,114	-

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. Subordinated loans

	2011 MNT'000	2010 MNT'000
UB City Bank	4,000,000	4,000,000
Capitron Bank	3,000,000	3,000,000
	7,000,000	3,000,000

The loan to UB City Bank bears fixed interest of 8% per annum and is to be repaid in full on 25 September 2012. The loan to Capitron Bank bears interest of 12% at 31 December 2011 (12.5% at 31 December 2010) per annum and is to be repaid in full on 14 August 2014.

10. Property and equipment

Property and equipment as of 31 December 2011 and 2010 were as follows:
31 December 2011
In MNT'000

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/valuation					
At cost	4,698,701	3,218,568	3,985,043	336,651	12,238,963
At revaluation	12,580,623	602,389	235,264	-	13,418,276
At 1 January 2011	17,279,324	3,820,957	4,220,307	336,651	25,657,239
Additions	1,472,719	1,037,127	1,434,721	52,088,745	56,033,312
Disposals	(275,208)	-	-	-	(275,208)
Write-offs	-	-	(330)	-	(330)
Transfers	95,783	-	-	(95,783)	-
Revaluation surplus	5,140,509	-	-	-	5,140,509
At 31 December 2011	23,713,127	4,858,084	5,654,698	52,329,613	86,555,522
Representing items at:					
Cost	5,848,714	4,255,695	5,419,434	52,329,613	67,853,456
Revaluation	17,864,413	602,389	235,264	-	18,702,066
	23,713,127	4,858,084	5,654,698	52,329,613	86,555,522
Accumulated depreciation					
At 1 January 2011	1,281,970	1,614,474	2,949,711	-	5,846,155
Charge for the year	637,531	412,534	681,802		1,731,867
Disposals	(23,559)	-	-	-	(23,559)
Write offs	-	-	(28)	-	(28)
Revaluation surplus	(143,905)	-	-	-	(143,905)
At 31 December 2011	1,752,037	2,027,008	3,631,485	-	7,410,530
Carrying amounts					
At 31 December 2010	21,961,090	2,831,076	2,023,213	52,329,613	79,144,992

31 December 2010
In MNT'000

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/valuation					
At cost	4,434,388	2,843,562	3,666,331	1,077,229	12,021,510
At revaluation	12,833,875	613,532	235,917	-	13,683,324
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	179,069	243,071	(1,234,085)	-
At 31 December 2010	17,279,324	3,820,957	4,220,307	336,651	25,657,239
Representing items at:					
Cost	4,698,701	3,218,568	3,985,043	336,651	12,238,963
Revaluation	12,580,623	602,389	235,264	-	13,418,276
	17,279,324	3,820,957	4,220,307	336,651	25,657,239
Accumulated depreciation					
At 1 January 2010	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)
At 31 December 2010	1,281,970	1,614,474	2,949,711	-	5,846,155
Carrying amounts					
At 31 December 2010	15,997,354	2,206,483	1,270,596	336,651	19,811,084

The Group disposed of an apartment unit and one of its branch buildings in 2011 and 2010, respectively, both of which were revalued in 2008. Revaluation surplus of MNT 624 and MNT 265,048 which was allocated to each of the property in 2008 were released into retained earnings in 2011 and 2010 upon disposal, respectively.

Construction-in-progress account primarily represents costs for construction of the Group's office building in Ulaanbaatar, Mongolia. The construction of the Group's office building commenced during the second quarter of 2011 and is expected to be completed during the fourth quarter of 2012. There were no capitalized borrowing costs related to the acquisition of property and equipment during 2011 and 2010.

Details of the latest valuation of buildings appraised by an independent professional valuation company are as follows:

Date of valuation	Description of property	Valuation amount	Basis of valuation
31 October 2008	Buildings	17,076,514	Market value
31 December 2011	Buildings	21,961,090	Market value

If the revalued property and equipment had been carried at historical cost less accumulated depreciation, the carrying amounts of the revalued assets that would have been included in the consolidated financial statements as of 31 December 2011 and 2010 would be as follows:

	2011 MNT'000	2010 MNT'000
Buildings	3,833,704	2,619,962
Office equipments and motor vehicles	89,009	118,679

11. Intangible assets

	2011 MNT'000	2010 MNT'000
Cost		
At 1 January	2,517,126	2,158,248
Additions	264,336	358,878
At 31 December	2,781,462	2,517,126
Amortisation		
At 1 January	1,861,232	1,357,529
Amortisation charge for the year	486,832	503,703
At 31 December	2,348,064	1,861,232
Carrying amounts		
At 31 December	433,398	655,894

Intangible assets consist of only purchased software.

12. Foreclosed real properties

	2011 MNT'000	2010 MNT'000
Industrial buildings	26,500	420,799
Apartment buildings	812,269	1,777,779
Less: Allowances	(259,579)	(1,221,233)
	579,190	977,345

Properties acquired through foreclosure are initially recognised 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 BOM and Ministry of Finance. Such a model classifies the Group's foreclosed properties based on time characteristics and makes allowances at the rates of 0%, 5%, 25%, 50% and 100% for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. During 2011 and 2010, an allowance of MNT 884,864 thousand and MNT 694,945 thousand were written back upon disposition of foreclosed real properties, respectively, and foreclosed real properties amounting to MNT 82,157 thousand and MNT 375,138 thousand, respectively, were written off against impairment losses.

13. Foreclosed real properties

	2011 MNT'000	2010 MNT'000
Precious metals	31,151	31,151
Accrued interest receivables	14,929,123	11,013,254
Prepayments (*)	936,201	18,591,792
Inventory supplies	490,954	471,859
Other receivables, net	1,185,751	1,657,801
	17,573,180	31,765,857

Other receivables are presented net of impairment losses amounting to MNT 2,156,497,138 and MNT 2,176,980,635 as of 31 December 2011 and 2010, respectively.

(*) Included in prepayments as of 31 December 2010 were USD 3,000,000 million (MNT 3,502,950 thousand) related to the Group's investment in UB City Bank for acquiring 800 shares or 10% of the total outstanding shares of UB City Bank, and a deposit of USD 11,000,000 made for construction of the Group's office building. These were reclassified to investment securities and construction-in-progress in property and equipment during 2011, respectively.

14. Deposits from customers

	2011 MNT'000	2010 MNT'000
Current accounts	524,418,099	343,163,179
Savings deposits	206,263,343	112,323,575
Time deposits	534,258,396	452,065,821
Other deposits	12,356,124	12,392,174
	1,277,295,962	919,944,749

Current accounts and other deposits generally bear no interest. However, for depositors maintaining current account balances above the prescribed limit, interest is provided at rates of approximately 1.5% and 3.4% (2010: 1.0% and 3.0%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.9% and 6.3% (2010: 2.4% and 6.0%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.5% and 12.3% (2010: 5.1% and 12.0%), respectively.

15. Deposits and placements by banks and other financial institutions

	2010 MNT'000	2009 MNT'000
Current accounts deposits:		
Foreign currency deposits	12,361,181	53,507,922
Local currency deposits	99,390	783
Foreign currency cheques for selling	249,214	76,169
Deposits from banks	22,353,770	-
	35,063,555	53,584,874

16. Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2011 MNT'000	2010 MNT'000
BOM	28 Dec 2011	2 Jan 2012	16.25%	66,816,502	-
BOM	28 Dec 2011	3 Jan 2012	16.25%	39,314,997	-
BOM	30 Dec 2011	2 Jan 2012	16.25%	65,352,970	-
				171,484,469	-

In 2011 the Group entered into repurchase agreements with BOM where the Group sold BOM treasury bills under repurchase agreements at an aggregate amount of MNT 177,000,000 thousand at various maturities. The securities sold are collateralized for the payables pertaining to the respective agreements.

17. Borrowings

	2011 MNT'000	2010 MNT'000
Kreditanstalt fuer Wiederaufbau ("KfW")	3,457,600	2,792,307
World Bank	6,674,634	5,484,868
Asian Development Bank	1,139,259	118,068
International Development Association	750,880	691,118
Export-Import Bank of Korea	18,094,576	5,539,417
VTB Bank Austria	50,548,594	11,314,620
Export-Import Bank of the Republic of China	148,118	50,287
Japan International Cooperation Agency	6,640,131	1,592,081
Atlantic Forfaitierungs AG	3,265,411	2,357,213
Russian Agricultural Bank	-	11,085,650
SME Project Fund from MoF	74,217,691	6,115,000
Commerzbank AG	2,228,909	-
Industrial and Commercial Bank of China	740,110	-
ING Bank	848,337	-
Baoshang Bank	3,428,658	-
MMC	2,197,608	3,537,518
		50,678,147

Kreditanstalt fuer Wiederaufbau ("KfW")

In 2002, the Group entered into a Loan and Financing Agreement with KfW, under which the Group can borrow up to EUR 4,345,981 from KfW via BOM as a Programme-Executing Agency for mainly providing financing to various small and medium customers at preferential interest rates. The outstanding KfW loan amounted to EUR 1,913,702 and EUR 1,662,117 at 31 December 2011 and 2010, respectively. The loan matures in June 2042 and bears interest at a fixed rate of 1.25% per annum, of which 0.75% is payable to KfW and 0.50% to BOM. Principal repayment is on a semi-annual basis, and the repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

World Bank

	2011 MNT'000	2010 MNT'000
Loan I	80,498	122,761
Loan II	6,594,136	5,362,107
	6,674,634	5,484,868

Loan I

In 2003, the Group entered into the Project Agreement with World Bank under the World Bank Training Program via the Ministry of Finance 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 outstanding World Bank loan under this program amounted to USD 57,648 and USD 97,648 at 31 December 2011 and 2010, respectively. The loan bears interest at a fixed rate of 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) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 2,897,219 and USD 2,789,280 at 31 December 2011 and 2010, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum (1.48% at 31 December 2011). The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Group can also borrow amounts in various currencies including in Togrog up to Special Drawing Rights (SDR) 6,250,000 from the World Bank via the Ministry of Finance to finance specific investment projects through the provision of sub-loans. The outstanding World Bank MNT loan amounted to approximately MNT 2,178 million and MNT 1,603 million at 31 December 2011 and 2010, respectively. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (6.33% at 31 December 2011). The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2006, the Group obtained a USD loan in the amount of USD 300,000 from the World Bank under the World Bank Training Program loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development program, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this program amounted to USD 265,212 and USD 200,830 at 31 December 2011 and 2010, respectively. 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")

ADB Loan is comprised of the following loans:

(a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information system. The outstanding loan amounted to USD 89,442 and USD 93,915 at 31 December 2011 and 2010, respectively. The loan matures in 2031 and bears interest at a fixed rate of 2% per annum and is repayable in 30 annual installments which commenced in 2002.

(b) In 2011, the Group entered into a Finance Agreement with ADB, under which the Group can borrow up to USD 11,000,000 from ADB via the Ministry of Finance to provide loans exclusively to customers who need to finance the cost of goods, works, and consulting services required to carry out Value Chain Development ("VCD") subprojects. The outstanding USD loan amounted to USD 85,482 at 31 December 2011. The loan matures in June 2018 and bears interest at a fixed rate of 9% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(c) Under the Finance Agreement as described in (b) above, the Group can also borrow amounts in Togrog. The outstanding MNT loan amounted to approximately MNT 895,000 thousand as of 31 December 2011.

International Development Association ("IDA")

In 1998, the Group obtained a USD loan in the amount of USD 600,000 from IDA to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), under which NBR had transferred operational knowhow and technical skills to the Group. The outstanding IDA loan amounted to USD 537,737 and USD 549,737 at 31 December 2011 and 2010, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective April 2011, the maximum amount of facility increased to USD 20,000,000. The outstanding borrowings under this line of credit agreement amounted to USD 12,958,297 and USD 4,406,225 at 31 December 2011 and 2010, respectively. This line of credit expires in July 2012, 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.

VTB Bank (Austria) AG ("VTB")

	2011 MNT'000	2010 MNT'000
Risk Participation I	-	7,543,080
Risk Participation II	1,675,644	3,771,540
Risk Participation III	20,945,550	-
Risk Participation IV	13,963,700	-
Risk Participation V	13,963,700	-
	50,548,594	11,314,620

The Group and VTB entered into various participation agreements, under which the VTB loans were extended to other borrowers. Under these participation agreements, VTB is at its sole risk and has no right of recourse against the Group for any loss it incurs as a result of default by the borrower. These loans bear interest at fixed rates ranging from 8% to 9% per annum.

Export-Import Bank of Republic of China ("TEXIM")

In 2004, the Group entered into a line of credit agreement with TEXIM under which the Group could borrow up to USD 6,000,000 for relending purposes to finance customers who purchase machinery and other manufactured goods produced in Taiwan. The outstanding borrowings under this line of credit agreement amounted to USD 106,073 and USD 40,000 at 31 December 2011 and 2010, respectively. This line of credit was extended to January 2013.

Japan International Cooperation Agency ("JICA")

JICA (formerly "Japan Bank for International Cooperation") Loan comprises the following loans:

(a) In 2006, the Group entered into a Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT up to the amount equivalent to JPY 2,981,000,000 from JICA via the Ministry of Finance which was channelled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development or Environmental Protection. The outstanding USD loan amounted to USD 377,000 and USD 192,400 at 31 December 2011 and 2010, respectively. The loan matures in March 2019 and bears interest at six-month LIBOR USD rate plus a margin of 1% per annum (1.4% at 31 December 2011). The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) Under the Loan Financing Agreement as described in (a) above, the outstanding MNT loan amounted to approximately MNT 1,179 million and MNT 1,350 million at 31 December 2011 and 2010, respectively. The MNT loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (4% at 31 December 2011).

(c) In 2011, the Group entered into another Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT up to the amount equivalent to JPY 5,000,000,000 from JICA via the Ministry of Finance which was channelled to various borrowers for the second phase of developing SME or environment projection. The outstanding MNT loan amounted to approximately MNT 4,935 million at 31 December 2011. The loan matures in March 2020 and bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (4% at 31 December 2011). The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Atlantic Forfaitierungs AG ("AF")

In 2009, the Group entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. In 2011, the Group renewed the Facility Agreement, under which the Group can borrow up to USD 2,338,500. The outstanding USD loan amounted to USD 2,338,500 and USD 1,875,000 at 31 December 2011 and 2010, respectively. The loan matures in May 2013. Interest is payable on a semi-annual basis, and principle repayment is due at maturity.

Russian Agricultural Bank ("RHSB")

In 2009, the Group entered into a line of credit agreement with RHSB under which the Group can borrow up to USD 25,000,000 for relending purpose. The outstanding borrowings under this credit facility amounted to USD nil and USD 8,817,870 at 31 December 2011 and 2010, respectively. This credit facility expires in August 2012.

SME Project Fund MoF

SME Project Fund MoF comprises the following loans:

(a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30 billion for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60 billion and MNT 150 billion, respectively. This credit facility expires in June 2016 and bears interest at a fixed rate of 7.0% per annum (9.6% at 31 December 2010) with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 20,471 million and MNT 6,115 million at 31 December 2011 and 2010, respectively.

(b) In October 2011, the Group signed the second credit facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of Wool and Cashmere sector development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 150 billion for this facility. This credit facility agreement expires in October 2016 and bears interest at a fixed rate of 7.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 53,747 million at 31 December 2011.

Commerzbank AG

In 2011, the Group entered into an Uncommitted Bilateral Trade Finance Facility Master Agreement with Commerzbank AG for the purpose of relending to customers to finance import and export transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this facility agreement, the Group has outstanding loans of EUR 444,824 and USD 1,020,660 at 31 December 2011, maturing in July and December 2012, respectively.

Industrial and Commercial Bank of China ("ICBC")

In 2011, the Group obtained a USD loan in the amount of USD 530,024 from ICBC to promote imports from China. This loan matures in March 2012 and bears interest as defined by the Central Bank of China on a case by case basis.

ING Bank

In 2011, the Group obtained a USD loan in the amount of USD 607,530 from ING Bank for relending purposes. This loan matures in November 2012.

Baoshang Bank

The Group entered into various facility agreements with Baoshang Bank, under which the Baoshang Bank loans were extended to other borrowers. At 31 December 2011, the Group has the following loans under this facility:

(a) The Group obtained a USD loan totaling USD 2,333,682 which was extended to various corporate customers. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) The Group obtained a CNY loan in the amount of CNY766,932. This facility expires in November 2012.

Mongolian Mortgage Corporation ("MMC")

The Group transferred certain mortgage portfolios to MMC in prior years on a recourse basis and determined that the transfer did 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 7 for further details of the transactions. There were no mortgage portfolios transferred to MMC during 2011 and 2010.

18. Debt securities issued

	2011 MNT'000	2010 MNT'000
Debt securities issued, at amortized cost	207,134,041	173,280,281

On 5 January 2007, the Group launched a Euro Medium Term Note ("EMTN") Programme under which USD 75 million 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 paid off on 22 January 2010.

On 25 October 2010, the Group issued USD 150,000,000 senior notes due on 25 October 2013 at a price of 99.353% under its USD 300,000,000 EMTN Programme which was launched on 9 October 2010. These bonds bear interest at 8.5% per annum payable semi-annually. The Group is also obligated to bear withholding tax of 5% of the amount of interest expenses paid to the investors on its senior notes in accordance with the double tax treaty between Mongolia and Singapore, and these additional cash outflows effectively increase actual interest rates for the notes.

In November 2010, the Group repurchased USD 10,000,000 of its senior notes which was treated as a redemption of debt securities. The related redemption loss of MNT 280,589 thousand was recognised in 2010. From July through December 2011, the Group reissued its senior notes totalling USD 10,000,000, which were bought back during 2010.

During 2011 and 2010, the respective debt securities accreted by 891,301 thousand and MNT 165,159 thousand, respectively, using the effective interest method.

19. Subordinated debt securities issued

	2011 MNT'000	2010 MNT'000
Subordinated debt, at amortized cost	41,693,522	31,218,538

On 16 November 2010, the Group issued USD 25,000,000 subordinated notes due on 17 November 2015 at a price of 99.999% under its USD 300,000,000 EMTN Programme which was launched on 9 October 2010. These bonds bear interest at 12.5% per annum payable semi-annually. On 24 May 2011, the Group additionally issued USD 5,000,000 subordinated notes due on 25 May 2016 at face value. These bonds bear interest at 11.0% per annum payable semi-annually. The Group is also obligated to bear withholding tax of 5% of the amount of interest expenses paid to the investors on its subordinated notes in accordance with the double tax treaty between Mongolia and Singapore, and these additional cash outflows effectively increase actual interest rates for the notes. The above liabilities will, in the event of the winding-up of the Bank, be subordinated to the claims of depositors and all other creditors of the issuer. During 2011 and 2010, the subordinated debt securities accreted by MNT 33,091 thousand and MNT 3,968 thousand, respectively, using the effective interest method.

20. Other liabilities

	2011 MNT'000	2010 MNT'000
Accrued interest payables	23,199,760	16,183,804
Delay on clearing settlement	14,215,203	711,906
Other payables	4,290,684	3,137,302
Dividends payable	365,945	365,945
	42,071,592	20,398,957

21. Share capital

	2011 Number of ordinary shares	2010 Number of ordinary shares	2011 MNT'000	2010 MNT'000
At 1 January	3,305,056	3,305,056	6,610,113	6,610,113
Issued during the year	-	-	-	-
At 31 December	3,305,056	3,305,056	6,610,113	6,610,113

At 31 December 2011 and 2010, 3,305,056 shares were issued and outstanding out of the total 4,000,000 authorized shares. All issued shares were fully paid and have a par value of MNT 2,000.

22. Treasury shares

	2011 MNT'000	2010 MNT'000
At 1 January	6,001,872	6,456,232
Sale of treasury shares	-	(454,360)
At 31 December	6,001,872	6,001,872

On 21 December 2010, the Group sold 30,700 treasury shares out of the total 314,577 treasury shares at MNT 14,800 per share to US Global. The outstanding treasury shares at 31 December 2011 and 2010 were 283,877 shares, representing approximately 8.59% of the total issued and outstanding ordinary shares.

In February 2012, the Group sold 157,862 treasury shares, representing approximately 4.78% of the total issued and outstanding ordinary shares, to GS Mongolia Investments Limited, incorporated in the Federal Territory of Labuan, Malaysia, for USD 11,000,000.

23. Interest income

	2011 MNT'000	2010 MNT'000
Loans and advances	108,869,075	68,749,442
Investment securities	29,252,203	15,445,848
Deposits and placements with banks and other financial institutions	4,559,357	4,278,640
Bills purchased under resale agreements	133,183	20,826
Subordinated loan	686,663	717,980
	143,500,481	89,212,736

24. Interest expense

	2011 MNT'000	2010 MNT'000
Deposits	68,489,599	50,654,319
Borrowings	4,059,540	4,090,307
Bills sold under repurchase agreements	1,128,593	189,165
Debt securities issued	17,052,569	4,603,135
Subordinated debt securities issued	4,628,760	526,010
	95,359,061	60,062,936

25. Net fee and commission Income

	2011 MNT'000	2010 MNT'000
Fee and commission income		
Wire transfer	3,742,399	2,568,171
Card service	3,385,622	2,207,594
Loan related service	5,575,020	2,756,699
Others	543,779	434,039
Total fee and commission income	13,246,820	7,966,503
Fee and commission expenses		
Card service expense	915,184	961,604
Others	197,403	152,868
Total fee and commission expenses	1,112,587	1,114,472
Net fee and commission income	12,134,233	6,852,031

26. Other operating income, net

	2011 MNT'000	2010 MNT'000
Foreign exchange gain, net	13,339,291	9,434,706
Precious metal trading gain, net	705,834	84,495
Debt securities redemption loss	-	(280,589)
Other	131,091	38,693
	14,176,216	9,277,305

27. Operating expenses

	2011 MNT'000	2010 MNT'000
Staff costs	8,939,306	7,749,108
Technical assistance and foreign bank remittance fees	720,837	415,777
Depreciation on property and equipment (note 10)	1,731,867	1,970,047
Amortisation on intangible assets (note 11)	486,832	503,703
Write-off of property and equipment	302	2,258
Professional fees	393,122	555,537
Insurance	166,598	632,195
Advertising and public relations	1,114,943	1,306,091
Rental expenses	1,700,901	1,158,818
Business travel expenses	623,795	680,462
Cash handling	499,742	350,184
Stationary and supplies	505,928	393,178
Communication	678,238	600,325
Training expenses	129,794	118,642
Utilities	239,790	221,754
Repairs and maintenance	439,098	172,626
Security	96,956	189,313
Meals and entertainment	247,317	317,152
Transportation	219,940	215,522
IT maintenance	608,708	520,018
Others (*)	527,437	506,050
	20,071,451	18,578,760

* Included in other operating expenses are costs incurred for loan collections, cleaning and other miscellaneous administrative expenses.

28. Impairment losses

	2011 MNT'000	2010 MNT'000
Impairment losses for loans, net	(3,976,213)	(164,700)
Increase in (reversal of) impairment losses for other assets and foreclosed real properties, net	905,348	(1,560,660)
	(3,070,865)	(1,725,360)

29. Leases

The Group leases some of its branch offices and computers under various lease agreements. Minimum lease commitments under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2011 and 2010 were as follows:

	2011 MNT'000	2010 MNT'000
Within a year	1,504,534	1,206,228
1 year-5 years	2,514,774	1,157,313
Thereafter	-	-
	4,019,308	2,363,541

30. Corporate income tax

Recognised in the consolidated statements of comprehensive income:

	2011 MNT'000	2010 MNT'000
Income tax expense – current year	9,212,154	4,277,777
Income tax expense – prior year adjustment	70,523	-
	9,282,677	4,277,777

Reconciliation of effective tax expense:

	2011 MNT'000	2010 MNT'000
Profit before tax	51,384,508	24,975,016
Tax at statutory income tax rate of 25%	12,846,127	6,243,754
Tax effect of non-deductible expense	161,476	948,923
Tax effect of non-taxable income	(3,262,224)	(2,458,300)
Tax effect of progressive tax rate of 10% on the portion of taxable profits up to MNT 3 billion	(450,000)	(450,000)
Adjustment of prior year tax return	70,523	-
Other	(83,225)	(6,600)
Income tax expense	9,282,677	4,277,777

According to Mongolian Tax Laws, the Group is required 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 in excess of MNT 3 billion.

31. Dividends

There were no dividends declared for the years ended 31 December 2011 and 2010.

32. Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months. Cash and cash equivalents reported in the consolidated statements of cash flows for the years ended 31 December 2011 and 2010 were as follows:

	2011 MNT'000	2010 MNT'000
Cash and due from banks (note 4)	474,964,634	553,467,811
Due from other financial institutions	(3,613,520)	(6,563,385)
Minimum regulatory reserve requirement with BOM	(168,064,650)	(48,716,398)
Cash and cash equivalents	303,286,464	498,188,028

33. Segment reporting

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

Operating 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.

Operating segments
The Group comprises the following main operating 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.

As at and for the year ended 31 December 2011

In MNT'000

	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment result							
External revenue							
Net interest income (expenses)	70,769,221	6,006,518	(30,529,844)	(16,400,746)	24,892,588	(6,596,317)	48,141,420
Net fees and commission income	4,192,982	128,093	7,445,015	8,029	113,753	246,361	12,134,233
Other operating income (expenses)	466,326	1,921	14,871,915	-	(1,580,696)	416,750	14,176,216
Intersegment revenue (expenses)	(41,525,827)	(2,475,150)	49,541,926	18,574,891	(29,237,322)	5,121,482	-
Total segment revenue (expenses)	33,902,702	3,661,382	41,329,012	2,182,174	(5,811,677)	(811,724)	74,451,869
Operating expense	(527,355)	(42,646)	(8,903,392)	(294,844)	(661,189)	(9,642,025)	(20,071,451)
Share of profit of an associate	-	-	-	-	-	74,955	74,955
(Allowance) reversal for impairment losses	(4,024,988)	296,948	531,090	-	-	126,085	(3,070,865)
Profit (loss) before tax	29,350,359	3,915,684	32,956,710	1,887,330	(6,472,866)	(10,252,709)	51,384,508
Income tax expense							(9,282,677)
Net profit for the year							42,101,831
Segment assets	775,630,552	61,634,782	330,662,265	1,083,675	424,457,667	496,570,748	2,090,039,689
Segment liabilities	52,094,869	-	1,248,114,379	210,640,758	259,473,325	178,800,328	1,949,123,659
Unallocated liabilities						1,501,186	1,501,186
Total liabilities	52,094,869	-	1,248,114,379	210,640,758	259,473,325	180,301,514	1,950,624,845
Depreciation and amortization	(3,288)	(518)	(989,623)	(1,609)	(13,605)	(1,210,056)	(2,218,699)
Capital expenditure	2,893	64	2,359,699	664	2,893	53,931,435	56,297,648

As at and for the year ended 31 December 2011

In MNT'000

	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment result							
External revenue							
Net interest income (expenses)	51,514,760	3,105,115	(32,672,558)	(3,078,226)	14,593,111	(4,312,402)	29,149,800
Net fees and commission income	2,159,356	81,289	4,304,446	16,612	92,939	197,389	6,852,031
Other operating income (expenses)	(24,031)	20,459	6,649,719	-	1,224,630	1,406,528	9,277,305
Intersegment revenue (expenses)	(27,986,887)	(1,709,034)	46,456,472	3,175,821	(16,022,722)	(3,913,650)	-
Total segment revenue (expenses)	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 (loss) before tax	23,570,580	1,858,812	18,840,387	(41,899)	(635,759)	(18,617,105)	24,975,016
Income tax expense							(4,277,777)
Net profit for the year							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	75,257,146	1,249,105,546
Unallocated liabilities						1,481,974	1,481,974
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)	(1,381,335)	(2,473,750)
Capital expenditure	1,593	1,680	155,531	-	1,304	1,431,970	1,592,078

34. Significant transactions with related parties

The following entities are considered as related parties of the Group:

- **UB City Bank** — The Group holds a 10% equity interest in UB City Bank as of 31 December 2011. In addition, the Group's chairman is a member of the board of directors of UB City Bank.
- **Capitron Bank** — Certain key management of the Group is the major shareholder of Capitron Bank.
- **MMC** — The Group holds approximately 31.6% equity interest in MMC as of 31 December 2011. (note 6)

The Group's executive officers and their immediate relatives are also considered as the Group's related parties.

Significant transactions and balances with related parties as of 31 December 2011 and 2010 and for the years then ended were as follows:

	2011 MNT'000	2010 MNT'000
UB City Bank:		
During the year ended 31 December		
Interest income	4,283,319	3,455,202
Interest expense	(201,616)	(300,791)
Fees and commission income	15,000	-
Fees and commission expenses	(19)	-
As at 31 December		
Deposits and placements with banks and other financial institutions	70,721,544	20,397,401
Deposits and placements by banks and other financial institutions	1,272,336	4,119,866
Subordinated loans (note 9)	4,000,000	4,000,000
Bills purchased under resale agreements (note 8)	36,996,114	-
Capitron Bank		
During the year ended 31 December		
Interest income	593,764	525,816
Interest expense	(3,845)	(42,900)
As at 31 December		
Deposits and placements by banks and other financial institutions	578,403	70,214
Subordinated loans (note 9)	3,000,000	3,000,000
MMC:		
During the year ended 31 December		
Interest income	480,845	627,078
Interest expense	(434,084)	(657,262)
As at 31 December		
Asset-backed securities (note 5)	2,653,000	3,751,000
Borrowings (note 17)	2,197,608	3,537,518

34. Significant transactions and balances with related parties (continued)

	2011 MNT'000	2010 MNT'000
Executive officers		
During the year ended 31 December		
Interest income	209,186	123,326
As at 31 December		
Loans to executive officers	3,092,463	1,215,070

The loans to executive officers are included in loans and advances of the Group. 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 by the properties of the respective borrowers.

Total remuneration and employees benefit paid to the executive officers and directors for the years ended 31 December 2011 and 2010 amounted to MNT 2,458,660 thousand and MNT 1,647,874 thousand, respectively.

35. Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as of 31 December 2011 and 2010 are summarized as follows:

In MNT'000

As at 31 December 2011	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and due from banks					
Investment securities	51,514,760	3,105,115	(32,672,558)	(3,078,226)	14,593,111
Loan and advances	2,159,356	81,289	4,304,446	16,612	92,939
Bills purchased under resale agreements	(24,031)	20,459	6,649,719	-	1,224,630
Subordinated loans	(27,986,887)	(1,709,034)	46,456,472	3,175,821	(16,022,722)
Other assets (*)	25,663,198	1,497,829	24,738,079	114,207	(112,042)
	(320,913)	(174,843)	(6,686,539)	(156,106)	(523,717)
Financial liabilities	(1,771,705)	535,826	788,847	-	-
Deposits from customers	23,570,580	1,858,812	18,840,387	(41,899)	(635,759)
Deposits and placements of banks and other financial institutions					
Bills sold under repurchase agreements					
Borrowings	368,880,416	18,888,908	106,574,231	1,083,675	593,867,694
Debt securities issued	19,304,243	-	817,987,675	176,095,265	160,461,217
Subordinated debt securities issued					
Other liabilities (**)	19,304,243	-	817,987,675	176,095,265	160,461,217
	(2,796)	(869)	(1,067,756)	-	(20,994)

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

In MNT'000

As at 31 December 2010	Held-to- maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and due from banks	-	553,467,811	-	-	553,467,811
Investment securities	259,138,886	-	1,596,562	-	260,735,448
Loan and advances	-	464,466,630	-	-	464,466,630
Subordinated loans	-	7,000,000	-	-	7,000,000
Other assets (*)	-	12,671,055	-	-	12,671,055
	259,138,886	1,037,605,496	1,596,562	-	1,298,340,944
Financial liabilities					
Deposits from customers	-	-	-	919,944,749	919,944,749
Deposits and placements of banks and other financial institutions	-	-	-	53,584,874	53,584,874
Borrowings	-	-	-	50,678,147	50,678,147
Debt securities issued	-	-	-	173,280,281	173,280,281
Subordinated debt securities issued	-	-	-	31,218,538	31,218,538
Other liabilities (**)	-	-	-	20,379,678	20,379,678
	-	-	-	1,249,086,267	1,249,086,267

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

For the year ended 31 December 2011

In MNT'000

	Interest income	Interest expenses	Fees and commission income	Other operating income	Impairment losses	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	5,177,140	-	-	-	-	5,177,140	-
Loans and receivables	114,248,278	-	5,575,020	-	(3,976,213)	115,847,085	-
Available-for-sale financial assets	24,075,063	-	-	15,904	-	24,090,967	3,736,050
Financial liabilities measured at amortised cost	-	(95,359,061)	-	-	-	(95,359,061)	-
	143,500,481	(95,359,061)	5,575,020	15,904	(3,976,213)	49,756,131	3,736,050

For the year ended 31 December 2010

In MNT'000

	Interest income	Interest expenses	Fees and commission income	Other operating income	Impairment losses	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	15,445,848	-	-	2,985	-	15,448,833	-
Loans and receivables	73,766,888	-	2,756,699	-	(164,700)	76,358,887	-
Financial liabilities measured at amortised cost	-	(60,062,936)	-	-	-	(60,062,936)	-
	89,212,736	(60,062,936)	2,756,699	2,985	(164,700)	31,744,784	-

36. 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 provides 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.

36. Financial risk management, continued

(b) Credit risk, continued

In MNT'000

	Loans and advances		Investment securities	
	2011	**2010**	**2011**	**2010**
Carrying amount	1,123,331,907	464,466,630	347,770,318	260,735,448
Neither past due nor impaired	1,107,176,325	441,840,494	347,770,318	260,735,448
Individually impaired				-
In arrears	5,893,671	16,904,372		-
Non-qualitative loans:				
a) Substandard	602,764	3,677,058		-
b) Doubtful	20,209,044	7,618,378		-
c) Loss	7,369,912	8,430,152		-
Gross amount	1,141,251,716	478,470,454		-
Allowance for loan loss	(17,919,809)	(14,003,824)		-
Net carrying amount	1,123,331,907	464,466,630	347,770,318	260,735,448

*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.

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 initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that 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.

	2011 MNT'000			2010 MNT'000		
	Gross	Net	Fair value of collateral	Gross	Net	Fair value of collateral
In arrears	5,893,671	5,598,987	9,201,702	16,904,372	16,059,153	18,821,035
Substandard	602,764	452,073	835,869	3,677,058	2,757,793	7,941,407
Doubtful	20,209,044	10,104,522	25,649,350	7,618,378	3,809,189	10,171,200
Loss	7,369,912	-	14,088,045	8,430,152	-	18,797,633
	34,075,391	16,155,582	49,774,966	36,629,960	22,626,135	55,731,275

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 2011 or 2010.

During 2011 and 2010, 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 consolidated financial statements.

36. 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:

	2011 MNT'000	2010 MNT'000
Agriculture	26,142,458	19,469,628
Mining and quarrying	245,635,697	73,163,350
Manufacturing	133,488,634	73,666,141
Petrol import and trade	82,917,312	47,721,926
Corporate-trading	188,765,060	69,706,606
Construction	114,972,883	71,830,777
Electricity and thermal energy	1,654,294	430,250
Hotel, restaurant and tourism	16,828,971	885,811
Financial services	4,824,841	250,085
Transportation	32,484,016	2,700,793
Health	1,167,209	2,416,299
Education	1,862,323	763,115
Mortgage	145,761,610	37,002,717
Payment card	76,100,447	30,362,475
Saving collateralized	9,696,934	17,940,526
Others	41,029,218	16,156,131
Total	1,123,331,907	464,466,630

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 2011	Violation
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 ALCO 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 liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia. For this purpose liquid assets are considered as including cash and cash equivalents, central bank bills, current accounts and deposits placed with BOM 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:

	2011	2010
At 31 December	43%%	67%

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 2011	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	50,082,881	-	-	-	-	50,082,881
Deposits and placements with banks and other financial institutions	164,507,210	3,613,520	-	-	-	168,120,730
Balances with BOM	256,761,023	-	-	-	-	256,761,023
Investment securities	190,288,320	4,935,000	43,230,986	66,829,742	42,486,270	347,770,318
Loans and advances	157,193,922	142,224,407	270,585,048	423,227,062	130,101,468	1,123,331,907
Bills purchased under resale agreements	36,966,114	-	-	-	-	36,966,114
Subordinated loans	-	-	4,000,000	3,000,000	-	7,000,000
Other assets (*)	11,071,193	238,663	1,605,223	3,080,805	118,990	16,114,874
	866,870,663	151,011,590	319,421,257	496,137,609	172,706,728	2,006,147,847
Financial liabilities						
Deposits from customers	1,003,029,541	104,920,628	130,060,162	39,285,631	-	1,277,295,962
Deposits and placements of banks and other financial Institutions	12,806,845	13,222,910	9,033,800	-	-	35,063,555
Bills sold under repurchase agreements	171,484,440	-	-	-	-	171,484,469
Borrowings	9,488,089	2,536,009	33,011,844	116,573,536	12,771,038	174,380,516
Debt securities issued	-	-	-	207,134,041	-	207,134,041
Subordinated debt securities issued	-	-	-	41,693,522	-	41,693,522
Other liabilities (**)	23,845,440	1,540,471	3,066,030	13,422,653	110,392	41,984,986
Issued financial guarantee contracts	98,373,660	-	-	-	-	98,373,660
Unrecognized loan commitments	131,121,269	-	-	-	-	131,121,269
	1,450,149,313	122,220,018	175,171,836	418,109,383	12,881,430	2,178,531,980
Net financial assets/(liabilities)	(583,278,650)	28,791,572	144,249,421	78,028,226	159,825,298	(172,384,133)

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

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	35,987,964	-	-	-	-	35,987,964
Deposits and placements with banks and other financial institutions	285,957,895	-	839,985	-	-	286,797,880
Balances with BOM	79,820,367	-	-	-	-	79,820,367
Deposits with BOM	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	92,332,037	55,221,671	118,710,644	175,998,480	22,203,798	464,466,630
Subordinated loans	-	-	-	7,000,000	-	7,000,000
Other assets (*)	9,779,482	2,440	112,633	2,641,651	134,849	12,671,055
	877,267,215	55,492,111	125,232,262	216,414,147	23,935,209	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
Debt securities issued	-	-	-	173,280,281	-	173,280,281
Subordinated debt securities issued	-	-	-	31,218,538	-	31,218,538
Other liabilities (**)	7,701,692	978,270	3,196,945	8,160,104	342,667	20,379,678
Issued financial guarantee contracts	73,427,994	-	-	-	-	73,427,994
Unrecognized loan commitments	45,236,892	-	-	-	-	45,236,892
	791,004,544	83,837,085	229,335,133	256,822,123	6,752,268	1,367,751,153
Net financial assets/(liabilities)	86,262,671a	(28,344,974)	(104,102,871)	(40,407,976)	17,182,941	(69,410,209)

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

(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 2011

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	-	50,082,881	50,082,881	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2.18	168,120,730	98,027,416	66,479,794	3,613,520	-	-	-
Balances with BOM	-	256,761,023	256,761,023	-	-	-	-	-
Investment securities	10.21	347,770,318	42,486,270	190,288,320	4,935,000	43,230,986	66,829,742	-
Loans and advances	13.28	1,123,331,907	-	157,193,922	142,224,407	270,585,048	423,227,062	130,101,468
Bills purchased under resale agreements	11.00	36,966,114	-	36,966,114	-	-	-	-
Subordinated loan	9.71	7,000,000	-	-	-	4,000,000	3,000,000	-
Other assets (*)	-	16,114,874	16,114,874	-	-	-	-	-
		2,006,147,847	463,472,464	450,928,150	150,772,927	317,816,034	493,056,804	130,101,468
Financial liabilities								
Deposits from customers	5.99	1,277,295,962	-	1,003,029,541	104,920,628	130,060,162	39,285,631	-
Deposits and placements of banks and other financial institutions	4.00	35,063,555	12,806,845	-	13,222,910	9,033,800	-	-
Bills sold under repurchase agreements	16.25	171,484,469	-	171,484,469	-	-	-	-
Borrowings	4.14	174,380,516	-	9,488,089	2,536,009	33,011,844	116,573,536	12,771,038
Debt securities issued	9.84	207,134,041	-	-	-	-	207,134,041	-
Subordinated debt securities issued	13.58	41,693,522	-	-	-	-	41,693,522	-
Other liabilities (**)	-	41,984,986	41,984,986	-	-	-	-	-
		1,949,037,051	54,791,831	1,184,002,099	120,679,547	172,105,806	404,686,730	12,771,038
Net financial assets/(liabilities)		57,110,796	408,680,633	(733,073,949)	30,093,380	145,710,228	88,370,074	117,330,430

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

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	-	35,987,964	35,987,964	-	-	-	-	-
Deposits and placements with banks and other financial institutions	0.77	286,797,880	-	285,957,895	-	839,985	-	-
Balances with BOM	-	79,820,367	79,820,367	-	-	-	-	-
Deposits with BOM	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	-	92,332,037	55,221,671	118,710,644	175,998,480	22,203,798
Subordinated loan	9.93	7,000,000	-	-	-	-	7,000,000	-
Other assets	-	12,671,055	12,671,055	-	-	-	-	-
		1,298,340,944	130,075,948	751,679,402	55,489,671	125,119,629	213,772,496	22,203,798
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	50,678,147	-	8,656,916	727,550	6,571,988	28,312,092	6,409,601
Debt securities issued	9.81	173,280,281	-	-	-	-	173,280,281	
Subordinated debt securities issued	13.78	31,218,538	-	-	-	-	31,218,538	-
Other liabilities (**)	-	20,379,678	20,379,678	-	-	-	-	-
		1,249,086,267	73,964,552	611,053,092	82,858,815	226,138,188	248,662,019	6,409,601
Net financial assets/(liabilities)		49,254,677	56,111,396	140,626,310	(27,369,144)	(101,018,559)	(34,889,523)	15,794,197

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

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:

Sensitivity of projected net interest income	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
2011 At 31 December	(5,862,038)	5,862,038
2010 At 31 December	806,877	(806,877)

Exposure to foreign exchange rate risks

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 set by BOM.

In MNT`000

	2011			2010		
	MNT denominated	Foreign currencies	Total	MNT denominated	Foreign currencies	Total
Financial assets						
Cash and hand	21,715,130	28,367,751	50,082,881	14,685,172	21,302,792	35,987,964
Deposits and placements with banks and other financial instruments	31,294,094	136,826,636	168,120,730	13,363,860	273,434,020	286,797,880
Balances and deposits with the BOM	103,966,754	152,794,269	256,761,023	36,131,526	194,550,441	230,681,967
Investment securities	347,770,318	-	347,770,318	260,735,448	-	260,735,448
Loan and advances	502,295,898	621,036,009	1,123,331,907	200,209,626	264,257,004	464,466,630
Bills purchased under resale agreements	36,966,114	-	36,966,114	-	-	-
Subordinated loans	7,000,000	-	7,000,000	7,000,000	-	7,000,000
Other assets (*)	1,060,577,755	6,545,427	16,114,874	7,346,519	5,324,536	12,671,055
		945,570,092	2,006,147,847	539,472,151	758,868,793	1,298,340,944
Financial liabilities						
Deposits from customers	755,270,967	522,024,995	1,277,295,962	440,274,228	479,670,521	919,944,749
Deposits and placement of bank and other financial institutions	242,032	34,821,523	35,063,555	27,033	53,557,841	53,584,874
Bills sold under repurchase agreements	171,484,469	-	171,484,469	-	-	-
Borrowings	85,539,860	88,840,656	174,380,516	12,505,774	38,172,373	50,678,147
Debt securities issued	-	207,134,041	207,134,041	-	173,280,281	173,280,281
Subordinated debt	-	41,693,522	41,693,522	-	31,218,538	31,218,538
Other liabilities (**)	22,696,568	19,288,418	41,984,986	13,317,694	7,061,984	20,379,678
	1,035,233,896	913,803,155	1,949,037,051	466,124,729	782,961,538	1,249,086,267
Net financial assets/ (liabilities)	25,343,859	31,766,937	57,110,796	73,347,422	(24,092,745)	49,254,677

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

A ten percent strengthening of the MNT against the USD at 31 December 2011 and 2010 would have increased (decreased) profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Ten percent strengthening MNT'000
2011 At 31 December	(3,176,694)
2010 At 31 December	2,409,275

At ten percent weakening of the MNT against the USD at 31 December 2011 and 2010 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

BOM 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 investors, creditors 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 2011 and 2010, respectively, were as following:

	2011 MNT'000	2010 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)	(6,001,872)
Retained earnings	108,976,296	66,873,841
Adjustment	-	-
	116,976,728	74,874,273
Tier II Capital		
Revaluation reserve	18,702,066	13,418,276
Unrealised gain on available-for-sale financial assets	3,736,050	-
Subordinated debt	41,693,522	31,218,538
	64,131,638	44,636,814
Total Tier I and Tier II capital	181,108,366	119,511,087

Breakdown of risk weighted assets as follows:

	2011 MNT'000	2010 MNT'000
Risk weighted factor (%)		
20	21,339,512	42,476,431
35	-	-
50	177,548,559	44,116,891
100	1,195,358,903	582,218,086
150	3,170,362	40,874,390
Foreign currency exposure (*)	31,766,937	24,108,494
	1,429,184,273	733,794,292
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	12.67%	16.29%
Total tier I capital expressed as a percentage of risk- weighted assets ("TCAR")	8.18%	10.20%

* On 30 October 2008, BOM 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.

37. 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 consolidated 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 recognised 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 2011 MNT 000	Fair value 2011 MNT 000	Carrying amount 2010 MNT 000	Fair value 2010 MNT 000
Financial assets					
Cash on hand	4	50,082,881	50,082,881	35,987,964	35,987,964
Deposits and placements with banks and other financial institutions	4	424,881,753	424,881,753	517,479,847	517,479,847
Investment securities	5	347,770,318	347,689,891	260,735,448	260,680,153
Loans and advances to customers	7	1,123,331,907	1,178,452,870	464,466,630	478,965,440
Bills purchased under resale agreements	8	36,966,114	36,966,114	-	-
Subordinated loans	9	7,000,000	7,000,000	7,000,000	7,000,000
Other assets (*)	13	16,114,874	16,114,874	12,671,055	12,671,055
		2,006,147,847	2,006,147,847	1,298,340,944	1,312,784,459
Financial liabilities					
Deposits from customers	14	1,277,295,962	1,220,954,963	919,944,749	906,916,013
Deposits and placements by banks and other financial institutions	15	35,063,555	35,063,555	53,584,874	53,584,874
Bills sold under repurchase agreements	16	171,484,469	171,484,469	-	-
Borrowings	17	174,380,516	174,380,516	50,678,147	50,678,147
Debt securities issued	18	207,134,041	200,563,416	173,280,281	177,113,446
Subordinated debt securities issued	19	41,693,522	49,190,702	31,218,538	31,822,526
Other liabilities (**)	20	41,984,986	41,984,986	20,379,678	20,379,678
		1,949,037,051	1,893,622,607	1,249,086,267	1,240,494,684

(*) Prepayments, precious metal and inventory supplies were excluded.
(**) Unearned income was excluded.

38. 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 reporting date if counterparties failed completely to perform as contracted.

As at 31 December	2011 MNT'000	2010 MNT'000
Letters of credit and guarantees	98,373,660	73,427,994
Loan and credit card commitments	131,121,269	45,236,892

These commitments and contingent liabilities have off balance-sheet credit risk for which provisions are not currently made which is a local banking industry practice acknowledged by BOM. A significant portion 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.

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