

XACBANK LLC

**Audited Financial Statements
31 December 2009**

XacBank LLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

CONTENTS	PAGE
STATEMENT BY DIRECTOR AND MANAGEMENT	1
REPORT OF THE INDEPENDENT AUDITORS	2 - 3
STATEMENT OF COMPREHENSIVE INCOME	4
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOW	7
NOTES TO THE FINANCIAL STATEMENTS	8 - 84

XacBank LLC

CORPORATE INFORMATION

REGISTERED OFFICE

: XacBank Building
Prime Minister Amar's Street
Post Branch #46, P.O.Box--721,
Ulaanbaatar-14200,
Mongolia

BOARD OF DIRECTORS

: Mr. Ganbold Chuluun
Mr. Ganhuyag Ch. Hutagt
Mr. Bekhbat Sodnom
Ms. Erdenejargal Perenley
Mr. Bold Magvan
Mr. James H. Anderson
Mr. Michael Madden
Mr. Olivier Marquet
Mr. Richard Ranken
Ms. Sarah Djari
Mr. Arvid Tuerkner

CORPORATE SECRETARY

: Mr. Amarbayasgalan Dashuyam

AUDITORS

: Ernst & Young Mongolia Audit LLC
Certified Public Accountants

STATEMENT BY DIRECTOR AND MANAGEMENT

I, Bold Magvan, being one of the directors of XacBank LLC ("the Bank"), and Delgerjargal Bayanjargal, being the officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 4 to 84 give a true and fair view of the financial position of the Bank as at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bold Magvan
(Chief Executive Officer)

Delgerjargal Bayanjargal
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date:

**REPORT OF THE INDEPENDENT AUDITORS
To the Shareholders of XacBank LLC**

We have audited the accompanying financial statements of XacBank LLC, which comprise the statement of financial position as at 31 December 2009 and the statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**REPORT OF THE INDEPENDENT AUDITORS (CONTD.)
To the Shareholders of XacBank LLC**

Opinion

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

Other Matter

This report is made solely to the shareholder of the Bank, as a body, in accordance with Article 91 of Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

CHUNG SING PETER YONG
Partner

Ulaanbaatar, Mongolia
Date:

XacBank LLC**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 MNT '000	2008 MNT '000
Interest and similar income	3	38,891,435	29,492,642
Interest and similar expense	4	<u>(21,111,773)</u>	<u>(14,595,147)</u>
Net interest income		17,779,662	14,897,495
Net fees and commission income	5	2,451,345	1,827,634
Other operating income	6	<u>298,103</u>	<u>755,042</u>
Total operating income		20,529,110	17,480,171
Operating expense	7	<u>(15,892,926)</u>	<u>(12,369,650)</u>
Operating profit before credit loss expense		4,636,184	5,110,521
Credit loss expense	8	(1,641,519)	(1,083,385)
Amortisation of deferred grants	21	320,678	118,421
Grant expenses	21	(320,678)	(118,421)
Profit before tax		<u>2,994,665</u>	<u>4,027,136</u>
Income tax expense	9	<u>(432,320)</u>	<u>(859,573)</u>
Profit for the year, representing total comprehensive income for the year attributable to equity holders of the Bank		<u>2,562,345</u>	<u>3,167,563</u>

The accompanying notes form an integral part of the financial statements.

XacBank LLC**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009**

	Note	2009 MNT '000	2008 MNT '000
ASSETS			
Cash and short term funds	10	8,928,250	7,488,261
Due from banks	11	82,443,485	24,287,029
Financial investments	12	11,874,194	7,972,388
Loans and advances to customers	13	195,248,857	149,639,706
Other assets	14	3,776,240	4,095,404
Property, plant and equipment	15	14,781,681	12,462,885
Intangible assets	16	2,845,516	2,023,990
TOTAL ASSETS		319,898,223	207,969,663
LIABILITIES			
Due to customers	17	126,736,567	76,982,135
Due to banks	18	22,067,565	5,269,224
Debt issued and other borrowed funds	19	130,490,468	97,087,964
Subordinated loans	20	8,813,103	3,707,110
Deferred grants	21	384,055	102,157
Other liabilities	22	1,754,298	839,606
Repurchase agreement	23	-	1,701,174
Tax payable		-	278,758
Deferred tax liabilities	24	193,679	105,394
TOTAL LIABILITIES		290,439,735	186,073,522
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Ordinary shares	25	13,290,651	10,947,830
Share premium	25	5,252,103	2,594,922
Other reserves	26	8,353,389	5,185,768
Retained profits		2,562,345	3,167,621
TOTAL EQUITY		29,458,488	21,896,141
TOTAL EQUITY AND LIABILITIES		319,898,223	207,969,663

The accompanying notes form an integral part of the financial statements.

XacBank LLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	2009	2008
	MNT '000	MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	2,994,665	4,027,136
<i>Adjustments for:-</i>		
Depreciation of property, plant and equipment (Note 15)	1,589,484	864,960
Amortisation of intangible assets (Note 16)	182,710	140,676
Amortisation of contribution to defined contribution plan (Note 7)	17,537	36,465
Credit loss for loans and advances to customers (Note 8)	1,629,524	1,073,647
Credit loss for other receivables (Note 8)	11,995	9,738
Interest income from financial investment (Note 3)	(1,340,891)	(333,759)
Unrealised foreign exchange loss/(gain)	1,018,482	90,345
Property, plant and equipment written off	15,139	34,448
Write down of foreclose properties (Note 7)	39,639	-
Gain on disposal of property, plant and equipment	(19,535)	(17,429)
Gain on disposal of intangible assets	-	(11,000)
Gain on disposal of financial investment - held for trading	-	(171,005)
Amortisation of deferred grants (Note 20)	(320,678)	(118,421)
Operating profit before working capital changes	<u>5,818,071</u>	<u>5,625,801</u>
<i>Changes in operating assets:-</i>		
Statutory deposit with Bank of Mongolia (Note 27)	(3,417,450)	-
Loans and advances to customers	(37,326,054)	(49,606,534)
Other assets	1,151,078	(2,516,936)
<i>Changes in operating liabilities:-</i>		
Due to customers	49,754,432	13,630,084
Due to banks	16,798,341	(9,311,916)
Other liabilities	914,692	202,805
Cash used in operations	<u>33,693,110</u>	<u>(41,976,696)</u>
Income tax paid	(920,367)	(539,709)
Net cash flow generated from/(used in) operating activities	<u>32,772,743</u>	<u>(42,516,405)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial investments	(336,403,589)	(38,535,347)
Proceeds from disposal of financial investment - held for trading	-	637,656
Proceeds from maturity of financial investments	333,842,674	32,105,654
Proceeds on disposal of property, plant and equipment	284,147	338,079
Proceeds on disposal of intangible assets	-	39,000
Purchase of property, plant and equipment	(4,188,031)	(4,754,623)
Purchase of intangible assets	(1,004,236)	(1,633,468)
Net cash flow used in investing activities	<u>(7,469,035)</u>	<u>(11,803,049)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from repurchase agreement	-	1,701,174
Repayment of repurchase agreement	(1,701,174)	-
Proceeds from issuance of ordinary shares	5,000,002	5,500,001
Proceeds from drawdown of borrowed funds	45,319,927	52,151,131
Repayment of borrowed funds	(18,346,044)	(2,806,787)
Deferred grants received	602,576	106,520
Net cash flow generated from financing activities	<u>30,875,287</u>	<u>56,652,039</u>
Net increase in cash and cash equivalents	56,178,995	2,332,585
Cash and cash equivalents brought forward (Note 27)	<u>31,775,290</u>	<u>29,442,705</u>
Cash and cash equivalents carried forward (Note 27)	<u>87,954,285</u>	<u>31,775,290</u>

The accompanying notes form an integral part of the financial statements.

XacBank LLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009**

		Non- distributable	←Distributable→			
	Note	Ordinary shares MNT '000	Share premium MNT '000	Other reserves MNT '000	Retained profits MNT '000	Total MNT '000
At 1 January 2008		8,034,200	8,551	2,293,999	2,891,827	13,228,577
Profit for the year representing total comprehensive income for the year		-	-	-	3,167,563	3,167,563
Transfer to other reserves	26	-	-	2,891,769	(2,891,769)	-
Issue of ordinary shares	25	2,913,630	2,586,371	-	-	5,500,001
At 31 December 2008		10,947,830	2,594,922	5,185,768	3,167,621	21,896,141
Profit for the year representing total comprehensive income for the year		-	-	-	2,562,345	2,562,345
Transfer to other reserves	26			3,167,621	(3,167,621)	-
Issue of ordinary shares	25	2,342,821	2,657,181			5,000,002
At 31 December 2009		<u>13,290,651</u>	<u>5,252,103</u>	<u>8,353,389</u>	<u>2,562,345</u>	<u>29,458,488</u>

The accompanying notes form an integral part of the financial statements.

XacBank LLC

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2009

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of provision of banking and financial services pursuant to License No. 24 issued by the Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is XacBank Building, Prime Minister Amar's Street, Suhbaatar District, Ulaanbaatar, Mongolia.

The holding company of the Bank is TenGer Financial Group LLC which is incorporated in Mongolia. The shareholders of the holding company are:

- Mercy Corps
- EIT Capital Management LLC
- International Finance Corporation
- European Bank for Reconstruction and Development
- Triodos Fair Share Fund
- Stichting Triodos Doen
- Open Society Forum
- Rotary Club of Ulaanbaatar
- Mongolian Women's Federation
- Ganhuyag Ch. Hutagt
- Liberal Women's Intellectual Pool
- Cydan SLC
- LEOS
- Ganbold Ch.
- Blue Orchard PIF

These financial statements of the Bank for the year ended 31 December 2009 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 31 March 2010

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost basis, except for available-for-sale, held for trading investments and derivative financial instruments that have been measured at fair value. The financial statements are presented in the Mongolian Tugrug, which is denoted by the symbol MNT, rounded to the nearest thousand (MNT'000), except when otherwise indicated.

2.1 BASIS OF PREPARATION (CONTD.)

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 29.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held for trading or designated at fair value through profit or loss are recognised in 'Interest and similar income' and 'Interest and similar expense' in the statement of comprehensive income using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income is recognised in the statement of comprehensive income as it accrued, except in the case of impaired loans and advances. Interest on impaired financial assets is recognised at the original effective interest rates of the financial assets applied to the impaired carrying amount.

(b) Fees and commission income

Fees and commission income derived by the Bank relate mainly to card service, application, transaction, money transfer service, and other fees. Fees and commission are generally recognised on an accrual basis when service has been provided.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(c) Foreign currencies translation

The financial statements are presented in Mongolian Tugrug, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the statement of financial position date. All exchange differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) **Income tax**

The Bank provides for current income tax based on its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purpose, in accordance with the regulations of the Mongolian Government and is measured using the tax rates that have been enacted at the statement of financial position date.

Deferred tax is provided for, using the liability method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is recognised in the statement of comprehensive income, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(e) **Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

(f) **Financial instruments - initial recognition and subsequent measurement**

(i) **Date of recognition**

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (Contd.)

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Other operating income'.

Derivatives embedded in other financial instruments, such as the embedded equity and currency derivatives in the convertible loan, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value in the trading portfolio with changes in fair value recognised in statement of comprehensive income.

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held-for-trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'other operating income'. Interest and dividend income or expense are recorded in 'other operating income' according to the terms of the contract, or when the right to the payment has been established.

(v) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (Contd.)

(v) Financial assets or financial liabilities designated at fair value through profit or loss (Contd.)

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit and loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

(vi) 'Day 1' profit

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

(vii) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line 'Credit loss expense'.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (Contd.)

(viii) Due from banks and loans and advances to customers

‘Due from banks’ and ‘Loans and advances to customers’, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through
- Those that the Bank, upon initial recognition, designates as available for sale;
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'Credit loss expense'.

(ix) Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The Bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains or losses are recognised directly in equity in the ‘Available-for-sale reserve’. When security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Financial instruments - initial recognition and subsequent measurement (Contd.)

(x) Debt issued and other borrowed funds

Financial instruments or their components issued by the Bank, which are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowed funds', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount

After initial measurement, borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(g) Securitisation

As part of its operational activities, the Bank securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on 'Derecognition of financial assets and financial liabilities'. Interests in the securitised financial assets may be retained by the Bank and are primarily classified as financial assets recorded at fair value through profit or loss, and gains and losses are reported in "Interest and similar income". Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

(h) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Derecognition of financial assets and financial liabilities (contd.)

(i) Financial assets (contd.)

- the Bank has transferred substantially all the risks and rewards of the asset,
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated

liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the financial liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(i) Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Determination of fair value (contd.)

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 34.

(j) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(k) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Impairment of financial assets (contd.)

(i) Due from banks and loans and advances to customers (contd.)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Bank adopted the basic approach where the impairment allowances are computed on an average of historical loss experience of each risk grouping over the outstanding balance. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced, and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Impairment of financial assets (contd.)

(iii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income - is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(iv) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(m) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in statement of financial position.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are not depreciated. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives. The estimated useful lives are as follows:

Buildings	40 years
Furniture, fixtures and vehicles	10 years
Computers	5 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

(o) Intangible assets

Intangible assets include the value of computer software and licences, software under development and patents and rights. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of computer software and licences and patents and rights are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(o) Intangible assets (contd.)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Software and licences	2-5 years
Patents and rights	3-20 years

(p) Impairment of non-financial assets

The Bank 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 Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair values less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income in the period in which it arises. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate method. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its statement of financial position to 'Financial assets held-for-trading pledged as collateral' or to 'Financial investments available-for-sale pledged'. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the effective interest rate method.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held-for-trading' and measured at fair value with any gains or losses included.

(r) Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of tender guarantees and letter of credit. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income in 'Credit loss expense'. The premium received is recognised in the statement of comprehensive income in 'Other operating income' on a straight-line basis over the life of the guarantee.

(s) Grants

Grants are recognised initially in the statement of financial position as deferred grants when there is reasonable assurance that they will be receivable and that the Bank will comply with the conditions attached to them. Grants that compensate the Bank for expenses incurred are amortised as revenue in statement of comprehensive income on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognised in statement of comprehensive income on a systematic basis over the useful life of the asset.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(t) Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred. The Bank also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Personnel expenses" in proportion to the services rendered by the employees to the bank. Overpaid contributions are recorded as receivables.

(iii) Equity compensation benefits

The Employee Stock Ownership Plan allows the Bank's staff to hold TenGer Financial Group LLC's shares through an employee investment trust company, EIT Capital Management LLC. Employees are allowed to purchase EIT Capital Management LLC shares at a discount. No change is made to the Bank's total share capital and no compensation cost is recognised by the Bank.

(u) Operating leases

Lease payments for operating leases, where substantially all risk and benefits remain with the lessor, are charged as an operating expense in the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

2.3 CHANGE IN ACCOUNTING POLICIES

The Bank has adopted the following new and amended IAS, IFRS and IFRIC interpretations during the year.

- * IFRS 1: First-time Adoption of International Financial Reporting Standards - Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- * IFRS 2: Share-based payments - Vesting Conditions and Cancellations (Amendment)
- * IFRS 7: Financial Instruments: Disclosures (Amendments)
- * IFRS 8: Operating Segments
- * IAS 1: Presentation of Financial Statements (Revised)
- * IAS 23: Borrowing Costs (Revised)
- * IAS 27: Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- * IAS 32: Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- * IFRIC 9: Reassessment of Embedded Derivatives and IAS 39 Financial Instruments : Recognition and Measurement - Embedded Derivatives (Amendments)
- * IFRIC 13: Customer Loyalty Programmes
- * IFRIC 15: Agreements for the Construction of Real Estate
- * IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- * IFRIC 18: Transfers of Assets from Customers

Improvements to International Financial Reporting Standards, which includes:

- * IAS 1: Presentation of Financial Statements
- * IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- * IAS 10: Events after the Reporting Period
- * IAS 16: Property, Plant and Equipment
- * IAS 18: Revenue
- * IAS 19: Employee Benefits
- * IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- * IAS 23: Borrowing Costs
- * IAS 27: Consolidated and Separate Financial Statements
- * IAS 28: Investments in Associates
- * IAS 29: Financial Reporting in Hyperinflationary Economics
- * IAS 31: Interest in Joint Ventures
- * IAS 34: Interim Financial Reporting
- * IAS 36: Impairment of Assets
- * IAS 38: Intangible Assets
- * IAS 39: Financial Instruments: Recognition and Measurement
- * IAS 40: Investment Property
- * IAS 41: Agriculture
- * IFRS 7: Financial instruments: Disclosures

The adoption of the above interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Bank except for those discussed below:

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

(a) IAS 1: Presentation of financial statements (Revised)

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in one single statement. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

(b) Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

(c) IAS 20: Accounting for Government Grants and Disclosure of Government Assistance

With respect of the government loans with no interest or below market interest rates, the loans granted will not be exempted from requirement for imputed interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

Summary of effects of adopting revised IFRSs and IASs on current year'a financial statement

The following provide estimate of extent to which each of the line items in the statement of financial position as at 31 December 2009 is higher or lower than it would have been had the previous policies been applied in the current year.

Description of changes	Increase/(Decrease) IAS 20, Note 2.3(c) MNT'000
Deferred grants	191,399
Debt issued and other borrowed funds	<u>(191,399)</u>

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

At the date of authorisation of these financial statements, the following Standards, Amendments to IFRSs and Interpretations were in issue but not yet effective:

- * IFRS 1: First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters (Amendments)
- * IFRS 2: Group Cash-settled Share-based Payment Arrangements
- * IFRS 3: Business Combinations (Revised)
- * IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- * IFRS 9: Financial Instruments
- * IAS 27: Consolidated and Separate Financial Statements (Amendment)
- * IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items (Amer
- * IFRIC 17: Distributions of Non-Cash Assets to Owners
- * IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

Improvement to International Financial Reporting Standards, which includes:

- * IAS 1: Presentation of Financial Statements
- * IAS 36: Impairment of Assets
- * IAS 38: Intangible Assets
- * IAS 39: Financial Instruments: Recognition and Measurement
- * IFRS 2: Share based Payments
- * IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- * IFRS 8: Operating Segments
- * IAS 7: Statement of Cash Flows
- * IAS 17: Leases
- * IAS 18: Revenue
- * IFRIC 9: Reassessment of Embedded Derivatives
- * IFRIC 16: Hedges of a Net Investment in a Foreign Operation

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank except that the impact of adopting the improvement to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 9 which are discussed as follows:

IFRS 9: Financial Instruments

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted with the main changes as discussed as follows:

(a) IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument. The available-for-sale and held-to-maturity categories currently in IAS 39 are eliminated.

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

IFRS 9: Financial Instruments (contd.)

(b) All equity investments in scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in 'other comprehensive income'. There is no 'cost exception' for unquoted equities.

(c) A debt instrument that meets the 'business model test' and "cash flows characteristic test" can be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). Even if an instrument meets the two amortised cost tests, IFRS 9 contains an option to designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

(d) The embedded derivative concept of IAS 39 is not included in IFRS 9. Consequently, embedded derivatives that under IAS 39 would have been separately accounted for at FVTPL because they were not closely related to the financial host asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at FVTPL if any of its cash flows do not represent payments of principal and interest.

The Bank is in the process of making an assessment of the impact of this new IFRS upon initial application.

Improvement to IAS 39: Financial Instruments: Recognition and Measurement

The improvement to IAS 39 introduced the assessment of loan prepayment penalties as embedded derivatives. A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

The Bank is in the process of making an assessment of the impact of this revised IAS upon initial application.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are

1 Impairment losses on loans and advances to customers

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 8 and Note 13.

2 Depreciation of buildings

Buildings are depreciated on a straight line basis over the estimated useful life of 40 years even though the lease period of the land on which the buildings are on are shorter than 40 years. By virtue of the Law of Mongolia on Land, the Bank enjoys the rights to request for extension of the lease period and the authority shall extend the period of lease subject to certain conditions being met. The management believes that the Bank have met the conditions set consistently and for the purpose of depreciation of buildings, the Bank estimated that a cumulative lease period of 40 years is reasonable and appropriate.

3. INTEREST AND SIMILAR INCOME

	2009	2008
	MNT '000	MNT '000
Loans and advances from customers	36,798,806	28,300,360
Due from banks	751,738	858,523
Financial investments - held-to-maturity	1,340,891	333,759
Total interest income from financial assets not at fair value through profit or loss	<u>38,891,435</u>	<u>29,492,642</u>

4. INTEREST AND SIMILAR EXPENSE

	2009	2008
	MNT '000	MNT '000
Due to customers	11,138,340	6,769,421
Due to banks	361,205	667,434
Borrowed funds	9,612,228	7,158,292
Total interest expense from financial liabilities not at fair value through profit or loss	<u>21,111,773</u>	<u>14,595,147</u>

5. NET FEES AND COMMISSION

	2009	2008
	MNT '000	MNT '000
Fees and commission income:		
Card service fees	108,179	156,149
Deposit accounts maintenance and service fees	195,746	231,941
Loan application fees	2,026,107	1,267,831
Money transfer fees	182,601	179,500
Other fees income	202,651	204,272
	<u>2,715,284</u>	<u>2,039,693</u>
Less: Fees and commission expense	(263,939)	(212,059)
Total net fees and commission from financial asset not at fair value through profit or loss	<u>2,451,345</u>	<u>1,827,634</u>

6. OTHER OPERATING INCOME

	2009	2008
	MNT '000	MNT '000
Foreign exchange - Realised gain	-	383,609
Rental income	47,936	64,736
Income from penalties	735	643
Incentive received from Bank of Mongolia	70,214	-
Gain on disposal of financial investments - held for trading	-	171,005
Other income	179,218	135,049
	<u>298,103</u>	<u>755,042</u>

7. OPERATING EXPENSES

	2009	2008
	MNT '000	MNT '000
Advertising	507,306	804,350
Amortisation of intangible assets (Note 16)	182,710	140,676
Armoured guard and security	670,083	540,121
Business trips	374,290	610,551
Cash collection service	2,363	1,992
Communication	252,262	506,713
Computer expenses	339,342	975
Contract fee	218,899	199,039
Depreciation of property, plant and equipment (Note 15)	1,589,484	864,960
Entertainment	221,695	617,616
Insurance expense	69,307	39,990
Loans collection expenses	27,382	10,156
Maintenance of property, plant and equipment	200,486	92,995
Membership and audit expenses	184,900	109,172
Other operating expenses	441,940	328,660
Personnel expenses *	7,155,919	5,903,150
Foreign exchange - Realised loss	560,969	-
Rental expenses	890,052	632,702
Stationery	316,940	271,303
Transportation and fuel supplies	373,767	409,228
Foreign exchange - Unrealised loss	1,018,482	90,345
Write down of foreclose properties	39,639	-
Utilities	254,709	194,956
	<u>15,892,926</u>	<u>12,369,650</u>

* Personnel expenses

Salaries, incentives and allowances	6,404,673	5,110,787
Contribution to social and health fund	707,173	570,085
Amortisation of contribution to defined contribution pension plan	17,537	36,465
Training	26,536	185,813
	<u>7,155,919</u>	<u>5,903,150</u>

8. CREDIT LOSS EXPENSE

	2009	2008
	MNT '000	MNT '000
Loans and advances to customers:		
Small business loans	254,210	141,045
Consumer loans	118,436	171,874
SME loans	898,918	432,366
Agricultural loans	27,642	94,009
Wholesale loans	(5,535)	10,166
Mortgage loans	286,445	77,755
Apartment pledged loans	(7,042)	145,232
Deposit Backed loans	(3)	1
Employee loans	56,453	1,199
	<u>1,629,524</u>	<u>1,073,647</u>
Other receivables	11,995	9,738
	<u>1,641,519</u>	<u>1,083,385</u>

9. INCOME TAX EXPENSE

	2009	2008
	MNT '000	MNT '000
Current income tax:		
Based on results for the year	344,035	734,125
Underprovision of tax in prior year	-	67,607
	<u>344,035</u>	<u>801,732</u>
Deferred tax (Note 24):		
Relating to origination and reversal of temporary differences	88,285	57,841
	<u>432,320</u>	<u>859,573</u>

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of bank is 10% (2008: 10%) for the first MNT3 billion (2008: MNT3 billion) of taxable income, and 25% (2008: 25%) on the excess of taxable income over MNT3 billion (2008: MNT3 billion). Interest income on government bonds is not subject to income tax.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December is as follows:

	2009	2008
	MNT '000	MNT '000
Profit before tax	<u>2,994,665</u>	<u>4,027,136</u>
Tax at statutory tax rate of 25% (2008: 25%)	748,666	1,006,784
Effect of income subject to lower tax rate	(449,852)	(450,000)
Effect of income not subject to tax	(1,408)	(3,585)
Effect of expenses not allowable for tax purposes	134,914	238,767
Underprovision of tax in prior year	-	67,607
Tax expense for the year	<u>432,320</u>	<u>859,573</u>

10. CASH AND SHORT TERM FUNDS

	2009	2008
	MNT '000	MNT '000
Cash and short term funds represented by:		
Local currency	4,838,548	4,589,859
Foreign currencies	4,089,702	2,898,402
	<u>8,928,250</u>	<u>7,488,261</u>

11. DUE FROM BANKS

	2009	2008
	MNT '000	MNT '000
Current accounts with the central bank	47,418,918	14,378,543
Placements with other banks and financial institutions	35,024,567	9,908,486
	<u>82,443,485</u>	<u>24,287,029</u>

Current accounts with the central bank, The Bank of Mongolia, are maintained in accordance with the Bank of Mongolia's requirements. The balances maintained with Central Bank are determined at set percentages based on the basis of 14-day period. As at 31 December 2009, the mandatory reserve required by the Bank of Mongolia was MNT 6.83 billion (2008: MNT 3.66 billion). As a result of amendment of the Regulation on Calculating and Controlling Reserve Requirement, with effect for 27 March 2009, the Bank is no longer allowed to utilised 50% of its required reserve to finance the Bank's day to day operation.

Placements with other banks and financial institutions represent local and foreign currencies current accounts maintained with foreign and local financial institutions and short term deposits with local financial institutions.

12. FINANCIAL INVESTMENTS

	<-----2009----->		
	Held-to- maturity MNT'000	Available- for-sale MNT'000	Total MNT'000
Unquoted investments:			
Bank of Mongolia treasury bills, at amortised cost	8,413,874	-	8,413,874
TDBM Credit Linked Deposit, at fair value	-	2,966,750	2,966,750
Equities, at cost	-	493,570	493,570
	<u>8,413,874</u>	<u>3,460,320</u>	<u>11,874,194</u>
	<-----2008----->		
	Held-to- maturity MNT'000	Available- for-sale MNT'000	Total MNT'000
Unquoted investments:			
Bank of Mongolia treasury bills, at amortised cost	7,453,722	-	7,453,722
Government bond, at amortised cost	294,366	-	294,366
Equities, at cost	-	224,300	224,300
	<u>7,748,088</u>	<u>224,300</u>	<u>7,972,388</u>

The Bank of Mongolia treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. TDBM Credit Linked Deposit is issued by ING with maturity less than 2 months.

Unquoted government bond is issued by The Ministry of Finance with maturity less than 9 months, and issued at a discount. Unquoted equities represent investment made in unquoted companies. Investments in unquoted shares are recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

13. LOANS AND ADVANCES TO CUSTOMERS

	2009 MNT '000	2008 MNT '000
Small business loans	33,545,404	27,467,306
Consumer loans	44,795,930	33,734,018
SME loans	63,822,769	39,765,684
Agricultural loans	657,442	1,104,047
Wholesale loans	1,323,974	1,237,969
Mortgage loans	42,569,682	37,683,780
Apartment pledged loans	1,684,446	3,888,022
Deposit backed loans	5,247,877	3,554,711
Employee loans and advances	4,760,242	2,892,588
Gross loans and advances to customers	<u>198,407,766</u>	<u>151,328,125</u>
Less: Allowance for impairment losses	(3,158,909)	(1,688,419)
	<u>195,248,857</u>	<u>149,639,706</u>

13. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers by class is as follows:

	Small Business Loans	Consumer Loans	SME Loans	Agricultural Loans	Wholesale Loans	Mortgage Loans	Apartment Pledged Loans	Deposit Backed Loans	Employee Loans	Total
At 31 December 2009	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000
At 1 January 2009	371,786	303,122	564,031	145,963	10,166	134,788	156,239	101	2,223	1,688,419
Charge for the year	440,629	315,328	1,160,070	49,070	4,631	408,411	52,920	98	57,464	2,488,621
Impairment written off	(59,323)	(19,044)	(17,165)	(34,346)	-	-	(29,156)	-	-	(159,034)
Recoveries	(186,419)	(196,892)	(261,152)	(21,428)	(10,166)	(121,966)	(59,962)	(101)	(1,011)	(859,097)
At 31 December 2009	<u>566,673</u>	<u>402,514</u>	<u>1,445,784</u>	<u>139,259</u>	<u>4,631</u>	<u>421,233</u>	<u>120,041</u>	<u>98</u>	<u>58,676</u>	<u>3,158,909</u>
Specific Impairment	143,151	76,540	1,085,490	94,532	-	117,806	76,709	-	1,144	1,595,372
Collective Impairment	423,523	325,974	360,293	44,727	4,631	303,427	43,332	98	57,532	1,563,537
	<u>566,674</u>	<u>402,514</u>	<u>1,445,783</u>	<u>139,259</u>	<u>4,631</u>	<u>421,233</u>	<u>120,041</u>	<u>98</u>	<u>58,676</u>	<u>3,158,909</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>227,500</u>	<u>102,204</u>	<u>3,959,042</u>	<u>151,462</u>	<u>-</u>	<u>295,926</u>	<u>94,698</u>	<u>-</u>	<u>1,268</u>	<u>4,832,100</u>

13. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

	Small Business Loans	Consumer Loans	SME Loans	Agricultural Loans	Wholesale Loans	Mortgage Loans	Apartment Pledged Loans	Deposit Backed Loans	Employee Loans	Total
At 31 December 2008	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000	MNT '000
At 1 January 2008	276,238	149,019	131,665	67,168	-	57,033	11,007	99	1,024	693,253
Charge for the year	274,403	297,745	488,204	121,896	10,166	86,330	152,210	101	1,580	1,432,635
Impairment written off	(45,497)	(17,770)	-	(15,214)	-	-	-	-	-	(78,481)
Recoveries	(133,358)	(125,872)	(55,838)	(27,887)	-	(8,575)	(6,978)	(99)	(381)	(358,988)
At 31 December 2008	<u>371,786</u>	<u>303,122</u>	<u>564,031</u>	<u>145,963</u>	<u>10,166</u>	<u>134,788</u>	<u>156,239</u>	<u>101</u>	<u>2,223</u>	<u>1,688,419</u>
Specific Impairment	176,538	99,918	561,519	126,423	2,400	15,626	119,011	-	1,212	1,102,647
Collective Impairment	<u>195,248</u>	<u>203,204</u>	<u>2,512</u>	<u>19,540</u>	<u>7,766</u>	<u>119,162</u>	<u>37,228</u>	<u>101</u>	<u>1,011</u>	<u>585,772</u>
	<u>371,786</u>	<u>303,122</u>	<u>564,031</u>	<u>145,963</u>	<u>10,166</u>	<u>134,788</u>	<u>156,239</u>	<u>101</u>	<u>2,223</u>	<u>1,688,419</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>246,750</u>	<u>137,564</u>	<u>3,444,446</u>	<u>174,220</u>	<u>23,472</u>	<u>28,997</u>	<u>207,754</u>	<u>-</u>	<u>1,253</u>	<u>4,264,456</u>

The fair value of the collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to MNT 7,988 million (2008: MNT 7,376 million). These value are estimated by the management based on the latest available information. For a more detailed description, see 'Collateral and other credit enhancement' under Note 35 .

14. OTHER ASSETS

	2009	2008
	MNT '000	MNT '000
Other receivables	383,984	401,089
Less: Allowance for impairment losses	(60,105)	(57,283)
	<u>323,879</u>	<u>343,806</u>
Foreclosed properties, at net realisable value	61,214	
Tax refundable	297,574	-
Prepaid expenses	1,659,573	2,232,151
Prepaid for defined contribution pension plan	373,623	487,157
Consumables and other inventories	949,862	921,775
Property held for sale	110,515	110,515
	<u>3,776,240</u>	<u>4,095,404</u>
	2,009	2,009
Allowance for impairment losses	MNT '000	MNT '000
At 1 January 2009	57,283	49,760
Charge for the year	12,224	10,610
Amount written off	(9,173)	(2,215)
Amount written back	(229)	(872)
At 31 December 2009	<u>60,105</u>	<u>57,283</u>

15. PROPERTY, PLANT AND EQUIPMENT

31 December 2009	Buildings MNT '000	Furniture, fixtures and vehicles MNT '000	Computers MNT '000	Renovation MNT '000	Capital work-in- progress MNT '000	Total MNT '000
At Cost						
At 1 January 2009	7,514,921	3,112,096	3,519,750	78,080	801,929	15,026,776
Additions	318,237	790,760	2,793,835	18,546	266,653	4,188,031
Disposals	(20,400)	(295,099)	(120,913)	-	(52,223)	(488,635)
Transfer	752,123	(21,447)	-	21,447	(752,123)	-
Write-offs	-	-	(56,771)	-	(15,042)	(71,813)
At 31 December 2009	<u>8,564,881</u>	<u>3,586,310</u>	<u>6,135,901</u>	<u>118,073</u>	<u>249,194</u>	<u>18,654,359</u>
Accumulated Depreciation						
At 1 January 2009	463,113	727,672	1,373,106	-	-	2,563,891
Charge for the year (Note 7)	190,657	343,853	1,044,086	10,888	-	1,589,484
Disposals	(2,083)	(108,867)	(113,073)	-	-	(224,023)
Write-offs	-	(272)	(56,402)	-	-	(56,674)
At 31 December 2009	<u>651,687</u>	<u>962,386</u>	<u>2,247,717</u>	<u>10,888</u>	<u>-</u>	<u>3,872,678</u>
Net Book Value	<u>7,913,194</u>	<u>2,623,924</u>	<u>3,888,184</u>	<u>107,185</u>	<u>249,194</u>	<u>14,781,681</u>

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

31 December 2008	Buildings MNT '000	Furniture, fixtures and vehicles MNT '000	Computers MNT '000	Renovation MNT '000	Capital work-in- progress MNT '000	Total MNT '000
At Cost						
At 1 January 2008	5,097,776	2,037,529	2,152,719	-	1,744,877	11,032,901
Additions	135,842	1,121,333	1,396,954	78,080	2,022,414	4,754,623
Disposals	(261,642)	(151,732)	(98,723)	-	-	(512,097)
Write-offs	-	(4,746)	(35,228)	-	(32,622)	(72,596)
Transfer	2,542,945	109,712	104,028	-	(2,932,740)	(176,055)
At 31 December 2008	<u>7,514,921</u>	<u>3,112,096</u>	<u>3,519,750</u>	<u>78,080</u>	<u>801,929</u>	<u>15,026,776</u>
Accumulated Depreciation						
At 1 January 2008	341,076	536,361	1,051,089	-	-	1,928,526
Charge for the year (Note 7)	147,343	263,069	454,548	-	-	864,960
Disposals	(25,306)	(68,335)	(97,806)	-	-	(191,447)
Write-offs	-	(3,423)	(34,725)	-	-	(38,148)
At 31 December 2008	<u>463,113</u>	<u>727,672</u>	<u>1,373,106</u>	<u>-</u>	<u>-</u>	<u>2,563,891</u>
Net Book Value	<u>7,051,808</u>	<u>2,384,424</u>	<u>2,146,644</u>	<u>78,080</u>	<u>801,929</u>	<u>12,462,885</u>

16. INTANGIBLE ASSETS

31 December 2009	Software and Licenses MNT '000	Patents and Rights MNT '000	Software Under Development MNT '000	Total MNT '000
At Cost				
At 1 January 2009	701,326	87,946	1,539,853	2,329,125
Addition	459,421	950	543,865	1,004,236
At 31 December 2009	1,160,747	88,896	2,083,718	3,333,361
Accumulated Amortisation				
At 1 January 2009	301,967	3,168	-	305,135
Charge for the year (Note 7)	172,987	9,723	-	182,710
At 31 December 2009	474,954	12,891	-	487,845
Net Book Value	685,793	76,005	2,083,718	2,845,516
31 December 2008	Software and Licenses MNT '000	Patents and Rights MNT '000	Software Under Development MNT '000	Total MNT '000
At Cost				
At 1 January 2008	610,874	49,783	-	660,657
Addition	90,452	3,163	1,539,853	1,633,468
Disposals	-	(30,000)	-	(30,000)
Transfer	-	65,000	-	65,000
At 31 December 2008	701,326	87,946	1,539,853	2,329,125
Accumulated Amortisation				
At 1 January 2008	163,715	2,744	-	166,459
Charge for the year (Note 7)	138,437	2,239	-	140,676
Disposals	-	(2,000)	-	(2,000)
Reclassification	(185)	185	-	-
At 31 December 2008	301,967	3,168	-	305,135
Net Book Value	399,359	84,778	1,539,853	2,023,990

17. DUE TO CUSTOMERS

	2009	2008
	MNT '000	MNT '000
Current accounts	11,542,703	10,622,799
Demand deposits	28,016,892	19,105,900
Time deposits	87,176,972	47,253,436
	<u>126,736,567</u>	<u>76,982,135</u>

18. DUE TO BANKS

	2009	2008
	MNT '000	MNT '000
Deposits from local banks	22,067,565	4,103,840
Deposits from foreign banks	-	1,165,384
	<u>22,067,565</u>	<u>5,269,224</u>

19. DEBT ISSUED AND OTHER BORROWED FUNDS

	2009	2008
	MNT '000	MNT '000
Borrowed funds from foreign financial institutions		
<i>Unsecured:</i>		
International Finance Corporation	5,865,194	6,509,980
Dexia Micro Credit Fund	11,807,569	3,855,369
Calvert Social Investment Foundation, Inc	1,757,499	1,544,045
ASN-Novib Funds/Triple Jump	10,309,040	9,026,972
Oikocredit Ecumenical Development Cooperative Society U.A	9,096,321	7,305,190
Stichting Triodos Doen	3,208,512	2,236,461
Triodos Fair Share Fund	3,656,770	3,203,948
Triodos Sicav	1,277,142	-
BlueOrchard Finance S.A.	16,678,895	14,133,551
DB-Global Commercial Microfinance Consortium, Ltd	6,658,429	5,393,480
DWM Securitizations S.A.	2,893,414	2,535,396
European Bank for Reconstruction and Development	2,915,433	5,146,844
Netherland Development Finance Company/FMO	15,331,031	11,897,731
Monarch Community Fund LLC	728,995	640,304
Finethic Microfinance	1,454,563	1,277,809
Credit Suisse Microfinance Fund Management Company	5,461,352	3,843,460
ResponsAbility SICAV (Lux)	7,810,341	6,542,992
Dual Return Fund S.I.C.A.V.	5,147,472	3,881,221
KfW, Frankfurt am Main	2,182,332	1,826,495
Wallberg Invest S.A	1,455,745	-
Kiva	937,822	-
Vittana	755	-
	<u>116,634,626</u>	<u>90,801,248</u>

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

	2009 MNT '000	2008 MNT '000
Borrowed funds from BOM and government agencies		
<i>Unsecured:</i>		
Employment Generation Support Fund	3,053,601	1,101,409
Micro Finance Development Fund	600,388	833,642
Rural Poverty Reduction Program	2,795,118	2,460,829
Ministry of Trade and Industry	703,242	1,439,454
Asian Development Bank	10,000	-
Ministry of Finance and Japanese International Cooperation Agency	1,544,244	451,382
SME Development Fund	5,149,249	-
	<u>13,855,842</u>	<u>6,286,716</u>
Totals	<u>130,490,468</u>	<u>97,087,964</u>

International Finance Corporation ("IFC")

The loans obtained from International Finance Corporation comprise the following:

- (i) USD 400,000, which bears interest at a rate of 4.97% (2008: 6.62%) per annum. The loan was obtained in 2002 to finance the Bank's micro-finance and SME lending activities. The loan is repayable in twelve semi-annual instalments which commenced on 15 January 2005 and will be fully repaid in July 2010.
- (ii) USD 5,000,000, which bears interest at a rate of 4.72% (2008: 6.6%) per annum. The loan was obtained in 2008 to finance the Bank's micro finance and SME lending activities. The loan is repayable in ten semi-annual instalments which commenced on 15 June 2009 and will be fully repaid in December 2013.

Dexia Micro Credit Fund ("DMCF")

The Bank obtained the promissory note in 2008 for a principal amount of USD 3,000,000 to finance micro-finance and SME lending activities. The note bears interest at a rate of 7.25% (2008: 7.25%) per annum and will be fully repaid in April 2011.

The Bank obtained the promissory note in 2009 for a principal amount of USD 5,000,000 to finance micro-finance and SME lending activities. The note bears interest at a rate of 7% per annum and will be fully repaid in July 2012.

Calvert Social Investment Foundation, Inc ("CSIF")

The loan obtained from CSIF is in the form of promissory notes issued by the CSIF for a principal amount of USD 700,000. The note was obtained in 2004, 2005 and 2006 respectively to finance the bank's micro-finance and SME lending activities. The notes bear interest at a rate of 6.0% (2008: 6.0%) per annum and will be fully repaid in December 2012.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

Calvert Social Investment Foundation, Inc ("CSIF") (contd.)

The loan obtained from CSIF is in the form of promissory notes issued by the CSIF for a principal amount of USD 500,000. The note was obtained in 2008 to finance the bank's micro-finance and SME lending activities. The notes bear interest at a rate of 6.3% (2008: 6.3%) per annum and will be fully repaid in December 2012.

ASN-Novib Fonds/Triple Jump

The loans obtained from ASN-Novib Fonds comprise the following:

- (i) USD 2,500,000, which bears interest at a rate of 7.75% (2008: 7.75%) per annum. The loan was obtained in 2008 to support further expansion of the Bank's micro-finance and SME lending activities. The loan will be fully repaid in December 2012.
- (ii) USD 4,500,000, which bears interest at a rate of 7.75% (2008: 7.75%) per annum. The loan was obtained in 2008 to support further expansion of the Bank's micro-finance and SME lending activities. The loan will be fully repaid in May 2012.

Oikocredit Ecumenical Development Cooperative Society U.A ("Oikocredit")

The loans obtained from Oikocredit comprise the following:

- (i) USD 1,500,000, which bears interest at a rate of 5.22% (2008: 6.46%) per annum at the statement of financial position date. The loan was obtained in 2007 to finance the Bank's micro-finance and SME lending activities. The loan is repayable in four equal semi-annual instalments commencing February 2010 and will be fully settled in August 2011.
- (ii) USD 500,000, which was converted to MNT 582,000,000 and bears interest at a rate of 9.5% (2008: 9.5%) per annum at the statement of financial position date. The loan was obtained in 2007 to finance the Bank's micro-finance and SME lending activities. The loan is repayable in five equal semi-annual instalments of MNT 116,400,000 each commencing February 2008 and will be fully settled in February 2010.
- (iii) USD 1,000,000, which was converted to MNT 1,183,310,000, bears interest at a rate of 9.5% (2008: 9.5%) per annum at the statement of financial position date. The loan was obtained in 2007 to finance the Bank's micro-finance and SME lending activities. The loan is repayable in five equal semi-annual instalments of MNT 236,662,000 each commencing February 2008 and will be fully settled in February 2010.
- (iv) USD 1,500,000, which bears interest at a rate of 7.0% (2008: 7.0%) per annum. The loan was obtained in 2008 to finance the Bank's micro-finance and SME lending activities. The loan is repayable in six equal semi-annual instalments of USD 250,000 each commencing February 2011 and will be fully settled in August 2013.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

Oikocredit Ecumenical Development Cooperative Society U.A ("Oikocredit") (contd.)

- (vi) EURO 2,000,000, which bears interest at a rate of 6.91% per annum. The loan was obtained in 2008 to finance the Bank's micro-finance and SME lending activities for the duration of 3 years.

Upon request from the Bank, the existing loan had been replaced with MNT loan for the amount equivalent to Euro 2,000,000, which bears interest rate of 12.11% per annum at the statement of financial position date.

Stichting Triodos Doen

The loans obtained from Stichting Triodos Doen comprise of the following:

- (i) MNT 1,000,000,000, which bears interest at a rate of 14% (2008: 12%) per annum. The loan was obtained in 2006 to finance the expansion of Bank's lending activities. The loan will be fully repaid in July 2010.
- (ii) MNT 1,200,000,000, which bears interest at a rate of 14% (2008: 12%) per annum. The loan was obtained in 2007 to finance the expansion of Bank's lending activities. The loan will be fully repaid in April 2011.
- (iii) MNT 1,400,000,000, with first disbursement of MNT980,000, which bears interest at a rate of 14% per annum. The loan was obtained in 2009 to finance the expansion of Bank's lending activities. The loan will be fully repaid in January 2013.

Triodos Fair Share Fund

The loans obtained from Triodos Fair Share Fund comprise of the following:

- (i) USD 500,000, which bears interest at a rate of 8.5% (2008: 8.5%) per annum. The loan was obtained in 2006 to finance the expansion of Bank's lending activities. The loan will be fully repaid in July 2011.
- (ii) USD 2,000,000, which bears interest at a rate of 8.25% (2008: 8.25%) per annum. The loan was obtained in 2007 to finance the expansion of Bank's lending activities. The loan will be fully repaid in April 2011.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

Triodos Sicav

The loans obtained from Triodos Sicav comprise of USD 3,000,000, with first disbursement of USD 900,000, which bears at a rate of 8% per annum. The loan was obtained in 2009 to finance the expansion of the Bank's lending activities. The loan will be fully repaid in January 2013.

BlueOrchard Finance S.A.

The loans obtained from BlueOrchard Finance S.A. comprise of the following:

- (i) USD 6,500,000, which bears interest at a rate of 8.25% (2008: 8.25%) per annum. The loan was obtained in 2006 to finance the expansion of the Bank's micro-finance lending activities. The loan is repayable in four equal quarterly instalments commencing June 2010 and will be fully repaid in March 2011.
- (ii) USD 5,000,000, which bears interest at a rate of 8% (2008: 8%) per annum. The loan was obtained in 2007 to finance the expansion of the Bank's micro-finance lending activities. The loan will be fully repaid in June 2012.

DB-Global Commercial Microfinance Consortium, Ltd. ("DBGC")

The loans obtained from DB-Global Commercial Microfinance Consortium, Ltd. comprise of the following:

- (i) The loan obtained from DBGC, amounting to USD 4,000,000, bears interest at a rate of 9.25% (2008: 9.25%) per annum. The loan was obtained in 2006 to finance the Bank's micro-finance and small-medium enterprise lending activities. The loan will be fully repaid in October 2010.
- (ii) The loan obtained from DBGC, amounting to USD 500,000, bears interest at a rate of 9.25% (2008: 9.25%) per annum. The loan was obtained in 2008 to finance the Bank's micro-finance and small-medium enterprise lending activities. The loan will be fully repaid in October 2010.

DWM Securitizations S.A. ("DWMS")

The loan obtained from DWMS, amounting to USD 2,000,000, bears interest at a rate of 8.25% (2008: 8.25%) per annum. The loan was obtained in 2006 to finance the expansion of the Bank's micro-finance and small-medium enterprise lending activities. The loan will be fully repaid in June 2011.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

European Bank for Reconstruction and Development ("EBRD")

The loans obtained from EBRD comprise of the following:

- (i) USD 2,500,000, which bears interest at a rate of 3.96% (2008: 6.11%) per annum at the statement of financial position date. The loan was obtained in 2006 to assist the development of the micro and small business sector in Mongolia. The loan is repayable in five equal semi-annual instalments commencing September 2008 and will be fully repaid in September 2010.
- (ii) USD 2,500,000, which bears interest at a rate of 3.96% (2008: 6.11%) per annum at the statement of financial position date. The loan was obtained in 2007 to assist the development of the micro and small business sector in Mongolia. The loan is repayable in five equal semi-annual instalments commencing September 2008 and will be fully repaid in September 2010.

Netherland Development Finance Company ("FMO")

The loans obtained from FMO comprise of the following:

- (i) USD 5,000,000, which was converted to MNT 5,850,450,000, bears interest at a rate of 11.8% (2008: 11.4%). The loan was obtained in 2007 to finance the bank's micro-finance and SME lending activities. The loan is repayable in 10 semi-annual instalments commencing October 2009 and will be fully repaid in April 2014.
- (ii) USD 5,000,000, which was converted to MNT 5,859,150,000, bears interest at a rate of 11.8% (2008: 11.4%) per annum. The loan was obtained in 2008 to finance the bank's micro-finance and SME lending activities. The loan is repayable in 10 semi-annual instalments commencing October 2009 and will be fully repaid in April 2014.
- (iii) USD 7,000,000, with first disbursement of USD 2,000,000, bears interest rate of 6.43% per annum at the statement of financial position date. The loan was obtained in 2009 to finance the bank's micro-finance and SME lending activities. The loan is repayable in 16 semi-annual instalments commencing October 2011 and will be fully repaid in April 2019.
- (iv) USD 2,500,000, with first disbursement after converted to MNT 889,875,000 bears interest rate of 9.5% per annum at the statement of financial position date. The loan was obtained in 2009 to finance the bank's Ger loan. The loan is repayable in 5 semi-annual instalments commencing April 2011 and will be fully repaid in April 2013.
- (v) USD 2,500,000, with first disbursement after converted to MNT 889,875,000 bears interest rate of 9.5% per annum at statement of financial position date. The loan was obtained in 2009 to finance the bank's Solar loan. The loan is repayable in 5 semi-annual instalments commencing April 2011 and will be fully repaid in April 2013.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

Monarch Community Fund, LLC

The loan obtained from Monarch Community Fund, amounting to USD 500,000, bears interest at rate of 6.0% (2008: 6.0%) per annum. The loan was obtained in 2008 to finance the bank's micro-finance and SME lending activities. The loan will be fully repaid in April 2011.

Finethic Microfinance

The loan obtained from Finethic Microfinance is in the form of promissory note issued by the foundation for a principal amount of USD 1,000,000. The note was obtained in 2008 to increase the liquidity and expansion of the bank's microfinance and small medium enterprise lending activities. The note bears interest at rate of 7.5% (2008: 7.5%) per annum and will be fully repaid in May 2013.

Credit Suisse Microfinance Fund Management Company

The loans obtained from Credit Suisse Microfinance Fund Management Company is in the form of promissory notes and comprise of the following:

- (i) USD 2,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in June 2013.
- (ii) USD 1,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in August 2013.
- (iii) USD 750,000, which bears interest rate of 5.48% per annum at the statement of financial position date. The note was obtained in 2009 to increase the liquidity and working capital of the Bank and will be fully repaid in December 2012.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

responsAbility SICAV (Lux)

The loans obtained from responsAbility SICAV (Luv) is in the form of promissory notes and comprise the following:

- (i) USD 3,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in July 2013.
- (ii) USD 2,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in August 2013.
- (iii) USD 250,000, which bears interest rate of 5.48% per annum at the statement of financial position date. The loan was obtained in 2009 to increase the liquidity and working capital of the Bank and will be fully repaid in December 2012.

Dual Return Fund SICAV

The loans obtained from Dual Return Fund SICAV is in the form of promissory notes and comprise the following:

- (i) USD 1,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in May 2013.
- (ii) USD 2,000,000, which bears interest at rate of 7.5% (2008: 7.5%) per annum. The note was obtained in 2008 to increase the liquidity and working capital of the Bank and will be fully repaid in August 2013.
- (iii) USD 500,000, which bears interest at rate of 7% per annum. The note was obtained in 2009 to increase the liquidity and working capital of the Bank and will be fully repaid in November 2012.

Wallberg Invest SA

The loans obtained from Wallberg Invest SA is in the form of promissory notes, amounting to USD 1,000,000, bears interest at a rate of 7% per annum. The loan was obtained in 2009 to finance the bank's micro-finance and SME lending activities. The loan will be fully repaid in November 2012.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

KfW, Frankfurt am Main ("KfW")

The loan obtained from KfW, amounting to USD 1,371,508 equivalent of EUR 900,000, bears interest rate of 5.38% per annum at the statement of financial position date with maximum interest rate to be capped at 8.0% per annum. The loan was obtained in 2008 to assist the development of the micro and small business sector in Mongolia, to improve low income person's living situation, to promote the urban development by financing housing projects, to strengthen the bank's equity basis and refinancing situation for business expansion and for the financing of consulting services to improve the banks risk management with respect to its microfinance lending business. The loan will be fully repaid in July 2017.

Employment Generation Support Fund

The loans obtained from Ministry of Social Welfare and Labour comprise of the following:

- (i) Mongolian Tugrug amounting to MNT 900,000,000, which bears no interest. The loan was obtained in 2008 to assist herders and unemployed people to start or expand their business. The loan is fully repayable by March 2010.
- (ii) Mongolian Tugrug amounting to MNT 2,945,000,000, which bears no interest. The loan was obtained in December 2009 to assist herders and unemployed people to start or expand their business. The difference between the market rate of interest for an equivalent loan at the inception date and the rate granted by the Ministry of Social Welfare has been recognised as a government grant in accordance with IAS 20. The grant was originally valued at MNT193.4 million and was recorded deferred grant. It is being amortised on a straight-line basis over the life of the loans. The loan is measured at amortised cost, in the amount of MNT2,751.6 million at 31 December, 2009. The effective interest rate is estimated at 4.5%. The loan is fully repayable by June 2011.

Micro Finance Development Fund

The loans obtained from World Bank comprise of the following:

- (i) MNT 722,500,000, which bears interest at rate of 8.1% (2008: 8.1%) per annum. The loan was obtained in 2008 to support and improve the living standard of inhabitant in the rural areas. The loan is payable on a monthly basis and final repayment due in July 2011 in accordance with the repayment schedule.
- (ii) USD 90,926,000, which bears interest at rate of 8.1%. The loan was obtained in 2009 to support and improve the living standard of inhabitant in the rural areas. The loan is payable on a monthly basis with principal repayment commencing June 2011 and final repayment due in November 2012 in accordance with the repayment schedule.

19. **LOAN ISSUED AND OTHER BORROWED FUNDS (CONT)**

Rural Poverty Reduction Program

The Bank obtained this loan from International Fund for Agricultural Development ("IFAD") to reduce the poverty in the rural areas. The loan, which amounts to USD 1,823,380, is to be received from March 2004 to December 2008. It bears interest at a rate of 6% (2008: 6%) per annum. The loan is repayable in 10 equal semi-annual instalments commencing from June 2013 and will be fully repaid in December 2017.

In February 2009, the Bank obtain loan from the IFAD, amounting to MNT120,000,000. It bears interest at a rate of 5% per annum. The loan and will be fully repaid in February 2019.

Ministry of Trade and Industry

The objective of the loan is to support micro and medium businesses. The loans comprise of the following:

- (i) MNT 119 million, which bears interest at a rate of 1.2% (2008: 1.2%) per annum. The loan was obtained in 2006 and due in November 2008. However, the loan was then further extended and will be due and fully repaid in January 2010.
- (ii) MNT 572,080,000, which bears interest at a rate of 1.2% (2008: 1.2%) per annum. The loan was obtained in 2008 and will be due and fully repaid in end of 2010.

Ministry of Finance and Japanese International Cooperation Agency ("JICA")

The Bank obtained MNT 379.2 million loan from Ministry of Finance and JICA during the year to support micro and medium businesses. The loan bears variable interest rate and it is currently at 4.8% (2008: 5.9%) per annum.

SME Development Fund

The Bank obtained MNT 5,146,206,149 loan from SME Development Fund during the year to support micro and medium businesses. The loan bears interest rate at 3.6% per annum and will be fully repaid in May 2012.

19. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

The Bank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the year except for the following breaches:

- (a) Loan from EBRD: The Bank has breached two of covenant clauses and is in the process of obtaining the waiver from EBRD.
- (b) Loan from ASN-Novib Fonds/Triple Jump: The Bank has breached one of covenant clauses and has obtained waiver from Triple Jump on 30 October 2009.
- (c) Loan from IFC: The Bank has breached one of covenant clauses and is in the process of obtaining the waiver from IFC.

20. SUBORDINATED LOANS

	2009	2008
	MNT '000	MNT '000
<i>Unsecured:</i>		
KfW, Frankfurt am Main	4,506,447	3,707,110
Incofin Impulse Microfinance Investment Fund	4,306,656	-
	<u>8,813,103</u>	<u>3,707,110</u>

Subordinated convertible loans from KfW, Frankfurt am Main ("KfW")

The Bank received USD 2,747,230 equivalent of EUR 1,800,000 under a 10-year subordinated convertible loan from KfW during the year. The subordinated convertible loan has maximum interest rate to be capped at 9.0% per annum. The effective interest rate at the statement of financial position date is 7.13% per annum.

The subordinated convertible loan can be repaid by cash as a bullet repayment in one amount on 20 July 2017 or based on approval from shareholders meeting, to be converted into equity shares of the Bank's holding company TenGer Financial Group LLC. The mode of repayment is further subjected to KfW's decision. The price of new shares to be issued shall be fixed by the Shareholders Meeting of TenGer Financial Group LLC that authorizes the Capital Increase. The new shares to be acquired by KfW shall be common shares with full voting powers and rank pari passu to all other shares of TenGer Financial Group LLC and shall not exceed 20% of the aggregate share capital of TenGer Financial Group LLC. The Bank cannot repay the loan prior to the maturity date, except in the case of revocation of its banking license, its insolvency, liquidation or restructuring and with the prior approval of the Bank of Mongolia.

Subordinated loan from Incofin Impulse Microfinance Investment Fund

The subordinated loan is to be repaid by cash as a bullet repayment in one amount on 84 months after first disbursement date which is December 2016. The loan bear interest of 9.25% per annum.

21. DEFERRED GRANTS

	2009	2008
	MNT '000	MNT '000
Consultative Group to Assist the Poorest ("CGAP")	143,933	57,528
International Finance Corporation ("IFC")	2,659	2,336
Employment Generation Support Fund	191,399	-
United States Agency for International Development ("USAID")	24,613	42,293
Women's World Banking ("WWB")	21,451	-
	<u>384,055</u>	<u>102,157</u>

Movements in the deferred grants are as follows:

	2009	2008
	MNT '000	MNT '000
Balance at beginning of year	102,157	114,058
Received during the year	602,576	106,520
Recognised in statement of comprehensive income	(320,678)	(118,421)
Balance at end of year	<u>384,055</u>	<u>102,157</u>

The CGAP grant was approved in 2001 with the objective of assisting the Bank in making a successful transition to a micro-finance bank. The grant allows the Bank to carry out the following activities:

- Develop internal systems that meet the requirements and needs of a micro-finance bank;
- Secure higher standard of external audit services; and
- Strengthen senior management and corporate governance, in particular, financial management and banking skills.

In 2006, the Bank won the CGAP's Pro Poor Innovation Challenge for its "Development Guide" service supporting rural savings and credit cooperatives. The grant was disbursed to the Bank to improve the Bank's service to the public, which include provide training to cooperative managers and members, finance awards for the best cooperatives and provides MIS program to cooperatives.

The CGAP grant which was received in 2008 was a technology program project with the objective of assisting the bank to carry out the following activities:

- Develop and manage a cash-handling agent network in rural areas beyond the bank's branch network;
- Market cell phone payments and savings products accessible to customers via those agent locations;
- Develop products and marketing methods for people who live in dispersed sparsely populated areas;
- Cooperate with World Bank's research of the project

21. DEFERRED GRANTS (CONTD.)

The IFC grant was received in 2002 with the objective of providing funds for technical assistance in the following initiatives:

- Hiring of technical advisor;
- Provide training for senior managers with an established micro-finance institution; and
- Participation by an international participant in the meetings of the Bank's Board of Directors and training for the Bank's Board members.

The Microenterprise Implementation Grant Program ("MIGP") grant was received in 2003 from United States Agency for International Development ("USAID") with the objective of assisting the Bank in expanding its branch network, staff training and developing new products and services, as well as internal systems needed to control growth.

The Women's World Banking ("WWB") grant was received in 2009 from Nike Foundation in order to develop and introduce saving products and financial education for girls and young women.

Expenditure financed by grants:

Donor and Purpose	2009 MNT '000	2008 MNT '000
• Expenditure financed by grants from "CGAP" covering meeting and training fee and franchising fee	-	22,837
• Expenditure financed by grants from "CGAP" covering mobile banking service fees	-	26,528
• Expenditure financed by grants from MIGP covering purchasing of accounting program	17,790	17,790
• Expenditure financed by grants from IFC covering meeting and training fee	-	5,250
• Expenditure financed by grants from BlueOrchard covering conference fee	5,577	4,863
• Expenditure financed by grant from Western Union covering training fee	-	21,384
• Expenditure financed by grant from Shorecap International Ltd. covering meeting and training fee	1,612	2,444
• Expenditure financed by grants from Microsave India Foundation covering meeting and training fee	-	2,281
• Expenditure financed by grant from EBRD covering conference and training fee	4,262	15,044
• Expenditure financed by grant from WWB covering training fee	4,112	-
• Expenditure financed by grants from WWB covering for financial education for girls and young women	43,477	-
• Expenditure financed by grants from Mol Bulak covering meeting fee	3,234	-
• Expenditure financed by grants from JRI	36,738	-
• Expenditure financed by grants from EUROGIRO covering training fee	2,919	-
• Expenditure financed by grants from GTZ covering training fee	609	-

21. DEFERRED GRANTS (CONTD.)

	2009	2008
Donor and Purpose (contd.)	MNT '000	MNT '000
• Expenditure financed by grants from "CGAP" covering for AMAR	198,257	-
• Expenditure financed by grants from KIVA	1,493	-
• Expenditure financed by grants from Micro energy Credit	598	-
	<u>320,678</u>	<u>118,421</u>

22. OTHER LIABILITIES

	2009	2008
	MNT '000	MNT '000
Delay on clearing settlement	173,212	41,686
Other payables	1,580,073	796,907
Dividends payable	1,013	1,013
	<u>1,754,298</u>	<u>839,606</u>

23. REPURCHASE AGREEMENT

As part of the repurchase agreement, the Bank has sold The Bank of Mongolia's bill that it is allowed to repurchase in the future. The bill bears term for 21 days. The fair value of the bill approximate its carrying amount at 31 December 2008.

24. DEFERRED TAX LIABILITIES

	Property, plant and equipment	
	2009	2008
	MNT '000	MNT '000
At 1 January	105,394	47,553
Recognised in statement of comprehensive income (Note 9)	88,285	57,841
At 31 December	<u>193,679</u>	<u>105,394</u>

25. ORDINARY SHARES

	Number of Ordinary Shares of MNT1,000 each		Amount	
	2009	2008	2009	2008
	MNT '000	MNT '000	MNT '000	MNT '000
At 1 January	10,947,830	8,034,200	10,947,830	8,034,200
Issued during the year	2,342,821	2,913,630	2,342,821	2,913,630
At 31 December	<u>13,290,651</u>	<u>10,947,830</u>	<u>13,290,651</u>	<u>10,947,830</u>

25. ORDINARY SHARES (CONTD.)

On 29 October 2009, the Bank issued 2,342,821 ordinary shares at an issue price of MNT 2,134.18 per share. As a result the share premium account increased by MNT 2,657 million to MNT 5,252 million for year ended 31 December 2009.

On 15 August 2008 and 10 September 2008, the Bank issued 2,913,630 numbers of ordinary shares at an issue price of MNT 1,887.68 per share. As a result the share premium account increased by MNT 2,586 million to MNT 2,594 million for year ended 31 December 2008.

26. OTHER RESERVES

During the year the Board of Directors approved the transfer of MNT 3,167,621,000 (2008: MNT 2,891,769,000) from retained profits to other reserves. At the date of this report, no policy is formalised by the Board as to the purpose of this reserves.

27. CASH AND CASH EQUIVALENTS

	2009	2008
	MNT '000	MNT '000
Cash and short term funds (Note 10)	8,928,250	7,488,261
Due from banks (Note 11)	82,443,485	24,287,029
	<u>91,371,735</u>	<u>31,775,290</u>
Less: Minimum reserve with Bank of Mongolia not available to finance the Bank's day to day operation (Note 11)	<u>(3,417,450)</u>	-
	<u>87,954,285</u>	<u>31,775,290</u>

28. EMPLOYEE BENEFITS

Equity Compensation Benefits

Under the Bank's Employee Stock Ownership plan, shares are allocated to employees on the following conditions:

- Employment duration with the Bank and its predecessor companies must be at least one year and the employee must complete more than 1,000 hours of service.
- Performing rating in the most recent evaluation period; and
- Employee shall read, understand and agree to abide by the policy prior to purchasing any Stock under this policy.

The number of shares offered for sale and its price will be determined at the discretion of the Bank's Board of Directors. In 2009, EIT Capital Management LLC allotted 52,752 shares of MNT 1,000 each (2008: 28,086) to XacBank LLC employees based on the discretion of the Board. In 2009, the shares were offered at a price of 50% (2008: 50%) of the par value of EIT LLC shares, an investment trust company set up to hold the shares in Tenger Financial Group LLC. The share capital of XacBank LLC is not affected by these transactions. The Bank does not bear or incur any cost in connection with these transactions.

29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 35.3 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2009	Less than 12 months MNT 'million	More than 12 months MNT 'million	Total MNT 'million
Financial assets			
Cash and short term funds	8,928	-	8,928
Due from banks	82,443	-	82,443
Financial investments	11,381	493	11,874
Loans and advances to customers	97,563	97,686	195,249
Other receivables	324	-	324
	<u>200,639</u>	<u>98,179</u>	<u>298,818</u>
Non financial assets			
Property, plant and equipment	48	14,734	14,782
Intangible assets	23	2,823	2,846
Other assets	2,154	1,298	3,452
	<u>2,225</u>	<u>18,855</u>	<u>21,080</u>
Total	<u>202,864</u>	<u>117,034</u>	<u>319,898</u>
Financial liabilities			
Due to customers	102,791	23,945	126,736
Due to banks	22,068	-	22,068
Borrowed funds	28,006	102,484	130,490
Subordinated loans	26	8,788	8,814
Other liabilities	1,592	162	1,754
	<u>154,483</u>	<u>135,379</u>	<u>289,862</u>
Non financial liabilities			
Deferred grants	152	232	384
Deferred tax liabilities		194	194
	<u>152</u>	<u>426</u>	<u>578</u>
Total	<u>154,635</u>	<u>135,805</u>	<u>290,440</u>
Net	<u>48,229</u>	<u>(18,771)</u>	<u>29,458</u>

29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

At 31 December 2008	Less than 12 months MNT 'million	More than 12 months MNT 'million	Total MNT 'million
Financial assets			
Cash and short term funds	7,488	-	7,488
Due from banks	24,287	-	24,287
Financial investments	7,748	224	7,972
Loans and advances to customers	84,478	65,162	149,640
Other receivables	344	-	344
	<u>124,345</u>	<u>65,386</u>	<u>189,731</u>
Non financial assets			
Property, plant and equipment	-	12,463	12,463
Intangible assets	-	2,024	2,024
Other assets	3,182	569	3,751
	<u>3,182</u>	<u>15,056</u>	<u>18,238</u>
Total	<u>127,527</u>	<u>80,442</u>	<u>207,969</u>
Financial liabilities			
Due to customers	57,906	19,076	76,982
Due to banks	5,269	-	5,269
Borrowed funds	10,083	87,005	97,088
Subordinated loans	-	3,707	3,707
Other liabilities	808	32	840
Repurchased agreement	1,701	-	1,701
	<u>75,767</u>	<u>109,820</u>	<u>185,587</u>
Non financial liabilities			
Deferred grants	78	24	102
Tax payable	279	-	279
Deferred tax liabilities	-	105	105
	<u>357</u>	<u>129</u>	<u>486</u>
Total	<u>76,124</u>	<u>109,949</u>	<u>186,073</u>
Net	<u>51,403</u>	<u>(29,507)</u>	<u>21,896</u>

30. RELATED PARTY DISCLOSURES

The Bank is controlled by TenGer Financial Group LLC. TenGer Financial Group LLC is owned by shareholders as disclosed in Note 1.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances as at the year end, and relating expense for the year are listed below.

	2009	2008
	MNT '000	MNT '000
(a) Compensations to key management personnel		
- Salaries, incentives and allowances	473,576	559,294
- Contribution to social and health fund	52,093	61,122
	<u>525,669</u>	<u>620,416</u>
(b) Loans to key management personnel	<u>459,480</u>	<u>432,523</u>
Repayable		
- within one year	73,576	89,420
- one year to five years	60,662	147,461
- over five years	325,242	195,642
	<u>459,480</u>	<u>432,523</u>
The loans to Bank's employees bear interest rates ranging from 0% to 12% (2008 : 5% to 12%) per annum.		
(c) Loans from shareholders of TenGer Financial Group LLC		
Stichting Triodos Doen	3,208,512	2,236,461
Triodos Fair Share Fund	3,656,770	3,203,948
International Finance Corporation ("IFC")	5,865,194	6,509,980
European Bank for Reconstruction and Development	2,915,433	5,146,844
	<u>15,645,909</u>	<u>17,097,233</u>
(d) Loan interest paid to shareholders of TenGer Financial Group LLC	<u>2,726,818</u>	<u>1,515,618</u>
(e) Deposits from corporate shareholders	<u>1,277,323</u>	<u>8,236,264</u>
(f) Due to holding company		
-Current account	1,383	130
-Demand deposit	2,559,621	514,454
-Time deposit	-	752,947
	<u>2,561,004</u>	<u>1,267,531</u>

30. RELATED PARTY DISCLOSURES (CONTD.)

	2009	2008
	MNT '000	MNT '000
(g) Security fees paid to fellow subsidiary company		
- XacSecurity LLC	596,240	530,610
(h) Deposits from fellow subsidiary companies and related company		
- XacSecurity LLC	17,074	15,670
- XacLeasing LLC	986,901	9,809
- Horus Nomadic Solutions LLC	28,494	47,808
	<u>1,032,469</u>	<u>73,287</u>
(i) Deposit interest paid to holding and fellow subsidiary companies and related company		
- TenGer Financial Group LLC	200,408	188,341
- XacSecurity LLC	856	210
- XacLeasing LLC	22,351	2,734
- Horus Nomadic Solutions LLC	1,376	306
	<u>224,991</u>	<u>191,591</u>
(j) Loan to fellow subsidiary companies		
- XacLeasing LLC	942,489	761,433
(k) Interest income from fellow subsidiary companies		
- XacLeasing LLC	75,161	42,204
- XacSecurity LLC	-	369
	<u>75,161</u>	<u>42,573</u>
(l) Commission income from fellow subsidiary company		
- XacLeasing LLC	2,135	6,265
(m) Contract fee paid to a related company		
- Horus Nomadic Solutions LLC	129,782	68,565

31. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2009 MNT '000	2008 MNT '000
Contingent liabilities		
Letter of credit	633,912	782,370
Payment guarantee	24,800	-
Tender performance guarantee	255,052	-
	<u>913,764</u>	<u>782,370</u>

Letters of credit (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Standby letters of credit carry the same credit risk as loans. No material losses are anticipated as a result of these transactions.

Commitments

Undrawn commitments to lend	<u>1,786,555</u>	<u>2,143,972</u>
-----------------------------	------------------	------------------

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Other commitments

	2009 MNT '000	2008 MNT '000
Approved and contracted for:		
Property, plant and equipment	25,532	1,509,121
Capital contribution to a related company	-	173,919
	<u>25,532</u>	<u>1,683,040</u>

31. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had no unresolved legal claims.

Operating lease commitments - Bank as lessee

The Bank as lessee entered all the operating leases of various buildings under cancellable operating lease agreements. The Bank is required to give a month notice for the termination of those agreements. The leases have no renewal option, purchase option and escalation clauses included in the agreements. There are no restrictions placed upon the Bank by entering these leases.

32. SIGNIFICANT EVENTS

On 21 January 2009, the Bank has acquire 10% equity interest in MCC Mol-Bulak Finance LLC, a micro credit company incorporated in Kyrgyz Republic for a consideration of SOM 5,493,139 (MNT173.9 million equivalent).

33. CAPITAL ADEQUACY

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Bank of Mongolia.

During the past year, the Bank had complied in full all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to the shareholder or new equity or equity related securities.

33. CAPITAL ADEQUACY (CONTD.)

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 6% (2008: 5%) and risk weighted capital ratio of at least 12% (2008: 12%), compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31 December are as follows:

	2009	2008
Core capital ratio	13.23%	13.24%
Risk weighted capital ratio	17.19%	15.49%
	2009	2008
	MNT '000	MNT '000
<u>Tier I capital</u>		
Statutory fund	13,290,651	10,947,830
Share premium	5,252,103	2,594,922
Other reserves	8,353,389	5,185,768
Retained profits	2,562,345	3,167,621
Total Tier I capital	29,458,488	21,896,141
<u>Tier II capital</u>		
Subordinated loans	8,813,103	3,707,110
Total capital /capital base	38,271,591	25,603,251

Breakdown of risk weighted assets in the various categories of risk weights are as follows:

	2009		2008	
	MNT '000		MNT '000	
%	Assets	Risk Weighted	Assets	Risk Weighted
0	64,761,043	-	29,614,891	-
20	35,192,932	7,038,586	10,612,512	2,122,502
50	18,876,360	9,438,180	16,279,845	8,139,922
100	206,202,340	206,202,340	155,055,507	155,055,507
Total	325,032,675	222,679,106	211,562,755	165,317,931

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2009	Level 1 MNT '000	Level 2 MNT '000	Level 3 MNT '000	Total MNT '000
Financial assets				
Financial investment - available-for-sale				
TDBM Credit Linked Deposit	-	-	2,966,750	2,966,750
Total	-	-	2,966,750	2,966,750

Financial instruments recorded at fair value

The TDBM Credit Linked Deposit is valued using discounted cash flow model which incorporate either observable or non-observable data. Observable inputs include assumption regarding current interest rate. Non observable input include assumption of future default rate and market liquidity discounts.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial liability which are recorded at fair value:

	At 1 January MNT '000	Total gains/ (losses) recorded in profit or MNT '000	Purchases MNT '000	At 31 December 2009 MNT '000
Financial asset				
Financial investment available-for-sale				
TDBM Credit Linked Deposit	-	(11,573)	2,978,323	2,966,750
Total level 3 financial asset	<u>-</u>	<u>(11,573)</u>	<u>2,978,323</u>	<u>2,966,750</u>

Due to its illiquid nature, no specific assumptions had been performed. The unquoted TDBM Credit Linked Deposit is not sensitive as the deposit is short term in nature with maturity of 37 days.

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2009 Realised gains MNT '000	2009 Unrealised gain/(losses) MNT '000	2009 Total MNT '000
Total gains or (losses) included in the profit or loss for the period	<u>-</u>	<u>(11,573)</u>	<u>(11,573)</u>

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Set out below is a comparison by class of the carrying values and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. The table does not include the fair value of non financial assets and non financial liabilities

	Note	Carrying value 2009 MNT '000	Fair value 2009 MNT '000	Carrying value 2008 MNT '000	Fair value 2008 MNT '000
<i>Financial assets</i>					
Cash and short term funds	10	8,928,250	8,928,250	7,488,261	7,488,261
Due from banks	11	82,443,485	82,443,485	24,287,029	24,287,029
Financial investments - held-to-maturity	12	8,413,874	8,413,874	7,748,088	7,748,088
Loans and advances to customers	13	195,248,857	195,628,037	149,639,706	147,148,132
Other receivables	14	323,879	323,879	343,806	343,806
<i>Financial liabilities</i>					
Due to customers	15	126,736,567	126,736,567	76,982,135	76,982,135
Due to banks	18	22,067,565	22,067,565	5,269,224	5,269,224
Borrowed funds	19	130,490,468	130,757,130	97,087,964	97,158,149
Subordinated loans	20	8,813,103	8,820,730	3,707,110	3,617,695
Other liabilities	22	1,754,298	1,754,298	839,606	839,606
Repurchased agreement	23	-	-	1,701,174	1,701,174

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximate carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to time deposits, saving accounts without a specific maturity and variable rate financial instruments and held for trading unquoted equities. Based on fair value assessments performed by the management, the estimated fair values of due to customers of more than one year approximate their carrying amounts as shown in the balance sheet. This is principally due to the fact that the current market rates offered for similar deposit products do not differ from market rate at inception.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and advances to customers is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term of maturity.

35. RISK MANAGEMENT

35.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The main risk inherent in the Bank's day to day operation involves credit risk, liquidity risk, foreign currency risk, interest rate risk, prepayment risk and operation risk. Such risk could either result in a direct loss in earnings and capital or may result in constraints on the Bank's ability to meet its objectives.

The Bank has a clearly defined risk management framework which is not designed to eliminate the risk but to optimize the risk and return trade off. The risk management framework in place is to ensure that:

- (i) Individuals who manage the risks clearly understands the requirement and measurement system;
- (ii) The Bank's risk exposure is within the limits established by the Board of Directors ("BOD");
- (iii) The risk measured is in line with the business strategy as approved by the BOD;

35. RISK MANAGEMENT (CONTD.)

35.1 Introduction (Contd.)

- (iv) The capital allocation is consistent with the risk exposures; and
- (v) The Bank's performance objectives are aligned with the risk tolerance.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. However, there are separate independent bodies responsible for managing and monitoring risks.

Board Risk Management Committee ("BRMC") and Risk Management Committee ("RMC")

The RMC sets the comprehensive risk management policies and tolerances. RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring financial risk and performance, comprehensive risk reporting and management review process. The BRMC is responsible for reviewing and approving the business strategies set by RMC.

Integrated Risk Management Division ("IRMD")

The IRMD has direct accountability for identifying, measuring, monitoring, and managing the daily financial positions and market risk. It is also primarily responsible for the credit portfolio risk, liquidity risk and operational risk of the Bank.

Internal Audit

Risk management processes throughout the bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

35. RISK MANAGEMENT (CONTD.)

35.1 Introduction (Contd.)

Risk measurement and reporting system (Contd.)

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, BRMC, RMC, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A monthly briefing is given to the Executive Committee and all other relevant members of the Bank on the utilisation of market limits, analysis of VaR and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses VaR and basis sensitivity analysis to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

35. RISK MANAGEMENT (CONTD.)

35.1 Introduction (Contd.)

Excessive risk concentration (Contd.)

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, the Bank of Mongolia ("Central Bank") sets the standards of a limitation on as follows:

- (i) The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed the 20 percent. of the capital of the Bank.
- (ii) The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed the 5% of the capital for one related person to the bank, and the aggregation of overall lending to the relates persons shall not exceed 20% of the capital of the Bank.

35.2 Credit risk

The Bank is exposed to credit risk which is the risk that Bank's customers, clients or counterparties will be unable or unwilling to pay interest, repay capital, or otherwise fulfil their contractual obligations under loan agreements, other credit facilities, or in respect of other financial instruments.

The Bank's RMC, through the Credit Management Division ("CMD") promotes diversification of the loan portfolio of the Bank's lending activities. The CMD structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Credit limit to any single borrower and portfolio limits by loan products are approved by the Board of Directors and reviewed periodically by the CMD.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collaterals and corporate and personal guarantees.

Credit-related commitments risks

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2009 MNT'000	Gross maximum exposure 2008 MNT'000
Cash and short term funds	10	8,928,250	7,488,261
Due from banks	11	82,443,485	24,287,029
Financial investments - available-for-sale	12	3,460,320	224,300
Financial investments - held-to-maturity	12	8,413,874	7,748,088
Loans and advances to customers	13	195,248,857	149,639,706
Other receivables	14	323,879	343,806
Total		298,818,665	189,731,190
Contingent liabilities	31	913,764	782,370
Commitments - undrawn commitments to lend	31	1,786,555	2,143,972
Other commitments	31	25,532	1,683,040
Total		2,725,851	4,609,382
Total credit risk exposure		301,544,516	194,340,572

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Risk concentrations by industry

The table below show the analysis per industry sector and economic purpose of the Bank's Loans and Advances to customers (Note 13) in gross amounts , before taking into account the fair value of the loan collateral held or other credit enhancements.

	2009		2008	
	Gross Maximum Exposure		Gross Maximum Exposure	
	Amount	%	Amount	%
	MNT'000		MNT'000	
Textile and production	18,071,253	9.1%	12,605,417	8.3%
Trading	55,089,418	27.8%	38,694,654	25.6%
Food processing	2,358,864	1.2%	1,464,604	1.0%
Services	27,366,890	13.8%	14,672,106	9.7%
Consumption	33,962,840	17.1%	33,734,018	22.3%
Agricultural	1,758,875	0.9%	1,366,204	0.9%
Mortgage	42,569,682	21.5%	37,683,780	24.9%
Deposit backed	5,247,877	2.6%	3,554,711	2.3%
Construction and education	7,221,825	3.6%	4,660,043	3.1%
Loans to staff	4,300,762	2.2%	2,460,065	1.6%
Loans to key management personnel	459,480	0.2%	432,523	0.3%
Total	198,407,766	100.0%	151,328,125	100.0%

Collateral and other credit enhancement

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank follows the collateral guidelines set by the Credit Management Committee in determining the type and value of collateral to be obtained.

The main types of collateral obtained are as follows:

- For small business, consumer, agricultural, SME and employee loans - cash, guarantees, securities and real estate properties, chattels, inventory, etc.
- For mortgage loans - mortgages on residential properties and vehicles.
- For wholesale loans - cash, equities and real estate properties.
- For deposit backed loans - cash deposit.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Credit quality per class of financial assets

The credit quality of loans and advances to customers is managed by the Bank using internal credit rating.

The following table shows the description of Credit Risk Grading System of the Bank:

<u>Credit Rating</u>	<u>Grade Description</u>
A	Excellent
B	Good
C	Satisfactory
D	Substandard

The Bank's 4-Grade Risk Rating is used in order to categorize exposures according to the risk profile. The 4-Grade Risk Rating is modeled using parametric approaches (logit model) that quantify the probability of default in determining the risk grade. Both qualitative and quantitative historical experience provide background for the bank's credit risk management department for the assumptions used. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of four grades which are applied in a uniform manner.

It is the Bank's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all lines of loan products. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk. All risk grades are tailored to the various loans exposures and are derived in accordance with the bank's grading policy across all risk groupings reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

The bank does not rate the unquoted financial investment.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Credit quality per class of financial assets

The table below shows that credit quality by class of asset for loan-related balance sheet lines, based on the Bank's internal credit rating system.

At 31 December 2009	Notes	Neither past due nor impaired					Past due or individually impaired MNT '000	Total MNT '000
		Excellent MNT '000	Good MNT '000	Satisfactory MNT '000	Substandard MNT '000	Not Rated MNT '000		
Cash and short term funds	10	8,928,250	-	-	-	-	-	8,928,250
Due from banks	11	50,027,934	1,576,175	17,180,587	13,658,789	-	-	82,443,485
Loans and advance to customers								
Small Business Loans		6,503,806	583,086	25,088,120	495	-	1,369,897	33,545,404
Consumer Loans		5,772,680	11,240,518	26,716,456	27,384	-	1,038,892	44,795,930
SME Loans		6,716,634	12,589,679	39,475,970	26,110	-	5,014,376	63,822,769
Agricultural Loans		10,492	39,769	381,677	453	-	225,051	657,442
Wholesale Loans		8,136	-	1,300,060	-	-	15,778	1,323,974
Mortgage Loans		37,696	3,912,206	37,184,085	696,183	-	739,512	42,569,682
Apartment Pledged Loans		306,825	393,411	785,521	-	-	198,689	1,684,446
Deposit Backed Loans		5,247,060	-	-	-	-	817	5,247,877
Employee Loans		620,478	4,130,283	-	-	-	9,481	4,760,242
	13	25,223,807	32,888,952	130,931,889	750,625	-	8,612,493	198,407,766
Financial investments - available-for-sale	12	-	-	2,966,750	-	493,570	-	3,460,320
Financial investments - held-to-maturity	12	8,413,874	-	-	-	-	-	8,413,874
Total		92,593,865	34,465,127	151,079,226	14,409,414	493,570	8,612,493	301,653,695

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Credit quality per class of financial assets (Contd.)

At 31 December 2008	Notes	Neither past due nor impaired					Past due or individually impaired MNT '000	Total MNT '000
		Excellent MNT '000	Good MNT '000	Satisfactory MNT '000	Substandard MNT '000	Not Rated MNT '000		
Cash and short term funds	10	7,488,261	-	-	-	-	-	7,488,261
Due from banks	11	19,026,222	88,314	2,313,283	2,859,210	-	-	24,287,029
Loans and advance to customers								
Small Business Loans		11,955,512	64,576	14,692,292	-	-	754,926	27,467,306
Consumer Loans		13,283,991	25,244	19,999,567	-	-	425,216	33,734,018
SME Loans		5,850,677	1,577,408	27,988,353	418,793	-	3,930,453	39,765,684
Agricultural Loans		490,887	10,953	340,644	-	-	261,563	1,104,047
Wholesale Loans		277,159	-	926,582	-	-	34,228	1,237,969
Mortgage Loans		301,675	214,122	36,475,635	573,068	-	119,280	37,683,780
Apartment Pledged Loans		969,312	-	2,631,147	-	-	287,563	3,888,022
Deposit Backed Loans		3,554,711	-	-	-	-	-	3,554,711
Employee Loans		418,290	2,468,781	-	-	-	5,517	2,892,588
	13	37,102,214	4,361,084	103,054,220	991,861	-	5,818,746	151,328,125
Financial investments - available-for-sale	12	-	-	-	-	224,300	-	224,300
Financial investments - held-to-maturity	12	7,748,088	-	-	-	-	-	7,748,088
Total		71,364,785	4,449,398	105,367,503	3,851,071	224,300	5,818,746	191,075,803

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Past due loans and advances to customers include those that are only past due by a few days. An analysis of past due loans by age is provided as follows. The majority of the past due loans are not considered to be impaired.

Aging analysis of past due but not impaired loans per class of financial assets

At 31 December 2009	Less than 30 days MNT '000	31 to 60 days MNT '000	61 to 90 days MNT '000	More than 91 days MNT '000	Total MNT '000
Loans and advance to customers					
Small Business Loans	118,859	102,015	101,495	820,028	1,142,397
Consumer Loans	191,700	101,413	28,611	614,964	936,688
SME Loans	295,268	70,785	363,724	325,557	1,055,334
Agricultural Loans	6,204	5,996	2,096	59,293	73,589
Wholesale Loans	-	-	11,354	4,424	15,778
Mortgage Loans	267,011	40,345	-	136,230	443,586
Apartment Pledged Loans	9,405	-	51,008	43,578	103,991
Deposit backed	735	82	-	-	817
Employee Loans	5,275	-	-	2,938	8,213
	<u>894,457</u>	<u>320,636</u>	<u>558,288</u>	<u>2,007,012</u>	<u>3,780,393</u>

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Aging analysis of past due but not impaired loans per class of financial assets (Contd.)

At 31 December 2008	Less than 30 days MNT '000	31 to 60 days MNT '000	61 to 90 days MNT '000	More than 91 days MNT '000	Total MNT '000
Loans and advance to customers					
Small Business Loans	187,505	137,654	62,081	120,936	508,176
Consumer Loans	121,987	82,998	26,535	56,132	287,652
SME Loans	100,763	161,037	103,802	120,405	486,007
Agricultural Loans	17,797	16,293	11,588	41,665	87,343
Wholesale Loans	10,756	-	-	-	10,756
Mortgage Loans	25,638	27,214	-	37,431	90,283
Apartment Pledged Loans	26,648	42,795	10,366	-	79,809
Employee Loans	4,264	-	-	-	4,264
	<u>495,358</u>	<u>467,991</u>	<u>214,372</u>	<u>376,569</u>	<u>1,554,290</u>

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Bank held as at 31 December 2009 was MNT 9,656 million (2008: MNT 4,911 million). Please refer Note 13 for more detailed information with respect to allowance for impairment losses on loans and advances to customers.

During the year, the Bank took possession of immovable properties with carrying value of MNT 61 million (2008: nil), which the Bank is in the process of selling.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2009 MNT '000	2008 MNT '000
Loans and advances to customers		
Small Business Loans	725,673	11,467
Consumer Loans	746,377	4,452
SME Loans	7,169,565	31,096
Mortgage Loans	1,685,267	31,480
Wholesale Loans	70,032	14,601
	<u>10,396,914</u>	<u>93,096</u>

Restructuring or renegotiating is done on case by case basis. A loan can be renegotiated only if the borrower faces temporary cash flow problem which would have reasonable evidence of future recovery. Proposal to restructure a loan is prepared by a credit officer and the final decision is made at head office by Credit Committee comprises of Senior Managers. Restructured loans are reported to Board as well.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The bank address impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of the other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by the management.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Impairment assessment (Contd.)

Collectively assessed allowances (Contd.)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the bank's overall policy.

35.3 Liquidity risk

The Bank is exposed to liquidity risks that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank sets limits on the minimum funding composition that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with the Central Bank of Mongolia equal to 5% of customer deposits.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 and 31 December 2008 based on contractual undiscounted repayment obligations. Please refer also note 29 "Maturity analysis of assets and liabilities" for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

35. RISK MANAGEMENT (CONTD.)

35.3 Liquidity risk (Contd.)

Financial Liabilities	On Demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2009							
Due to customers	39,729,317	29,328,499	17,572,570	20,890,943	15,867,681	25,810,952	149,199,962
Due to banks	-	6,926,753	-	16,861,484	-	-	23,788,237
Borrowed funds	-	4,988,320	5,216,286	19,513,329	126,413,065	11,090,062	167,221,062
Subordinated loans	-	-	25,580	-	-	13,731,937	13,757,517
Other liabilities	-	1,014,644	329,293	248,453	161,466	442	1,754,298
Total	39,729,317	42,258,216	23,143,729	57,514,209	142,442,212	50,633,393	355,721,076
At 31 December 2008							
Due to customers	29,846,005	11,696,682	10,367,473	8,018,592	12,238,080	20,381,095	92,547,927
Due to banks	-	1,856,710	-	3,745,892	-	-	5,602,602
Borrowed funds	-	5,362,493	1,478,322	5,381,079	111,349,514	5,237,418	128,808,826
Subordinated loans	-	-	-	-	-	6,062,314	6,062,314
Other liabilities	-	512,066	53,659	240,955	32,926	-	839,606
Total	29,846,005	19,427,951	11,899,454	17,386,518	123,620,520	31,680,827	233,861,275

35. RISK MANAGEMENT (CONTD.)

35.3 Liquidity risk (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	On Demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
2009							
Contingent liabilities	-	822,865	5,000	85,899	-	-	913,764
Commitments	-	8,923	16,609	-	-	-	25,532
Total	-	831,788	21,609	85,899	-	-	939,296
2008							
Contingent liabilities	-	316,421	107,508	358,441	-	-	782,370
Commitments	-	1,141,034	512,347	29,659	-	-	1,683,040
Total	-	1,457,455	619,855	388,100	-	-	2,465,410

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

35. RISK MANAGEMENT (CONTD.)

35.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Bank manages and monitors this risk element using VaR and sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. The management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2009 and 31 December 2008.

Currency	Sensitivity of Profit Before Tax			
	Increase/(Decrease) in basis points		2009	2008
	2009	2008	MNT'mil	MNT'mil
MNT	50/(100)	50/(50)	269/(134)	213/(213)
USD	25/(50)	50/(50)	17/(34)	45/(45)

Currency risk

Currency risk is the possibility of financial loss to the Bank arising from adverse movements in foreign exchange rates. The Bank's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis. Apart from using foreign exchange exposure mismatch, the Bank applies Value-at-Risk ("VaR") simulation model to manage and measure foreign exchange risk since March 2007. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over specified time horizon.

35. RISK MANAGEMENT (CONTD.)

35.4 Market risk (Contd.)

Currency risk (Contd.)

Objective, assumptions and limitations of VaR Methodology

The VaR model are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The Bank uses Variance/Covariance model to assess possible changes in foreign currency portfolio based on historical data from the past one day. The VaR methodology employed by the Bank uses a one-day period, using 99% confidence level, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day, and are determined by observing market data movements over a 250-day period. The use of a 99% confidence level means that, within on day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

VaR is an integral part of the Bank's market risk management since March 2007, VaR limits and exposures are reviewed regularly against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR model are the following:

	Variance/ Covariance MNT'000
2009 - 31 December	17,731
2009 - Average Daily	29,316
2009 - Highest	79,145
2009 - Lowest	2,998

35. RISK MANAGEMENT (CONTD.)

35.4 Market Risk (Contd.)

Currency risk (contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as December 31, 2009 and December 31, 2008. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

Concentrations of financial assets and financial liabilities	Local	Foreign Currencies					Total	
	Currency	USD	EUR	GBP	CNY	RUB		JPY
	-----MNT 'million-----							
As at 31 December 2009								
Assets								
Cash and short term funds	4,839	3,177	240	-	521	125	26	8,928
Due from banks	32,776	43,898	3,961	1	1,695	95	17	82,443
Financial investments	8,709	3,165	-	-	-	-	-	11,874
Loans and advances to customers	124,743	70,128	368	-	10	-	-	195,249
Other receivables	185	139	-	-	-	-	-	324
	<u>171,252</u>	<u>120,507</u>	<u>4,569</u>	<u>1</u>	<u>2,226</u>	<u>220</u>	<u>43</u>	<u>298,818</u>
Liabilities								
Due to customers	107,538	17,488	664	-	1,002	3	42	126,737
Due to banks	18,132	-	3,936	-	-	-	-	22,068
Borrowed funds	31,621	98,869	-	-	-	-	-	130,490
Subordinated loans	-	8,813	-	-	-	-	-	8,813
Other liabilities	1,460	237	51	-	6	-	-	1,754
	<u>158,751</u>	<u>125,407</u>	<u>4,651</u>	<u>-</u>	<u>1,008</u>	<u>3</u>	<u>42</u>	<u>289,862</u>
Net position	<u>12,501</u>	<u>(4,900)</u>	<u>(82)</u>	<u>1</u>	<u>1,218</u>	<u>217</u>	<u>1</u>	<u>8,956</u>

35. RISK MANAGEMENT (CONTD.)

35.4 Market Risk (Contd.)

Currency risk (contd.)

Concentrations of financial assets and financial liabilities	Local	Foreign Currencies					Total	
	Currency	USD	EUR	GBP	CNY	RUB		JPY
	-----MNT 'million-----							
As at 31 December 2008								
Assets								
Cash and short term funds	4,590	2,185	253	-	410	9	41	7,488
Due from banks	6,679	16,217	1,347	1	25	1	17	24,287
Financial investments	7,972	-	-	-	-	-	-	7,972
Loans and advances to customers	89,576	59,012	1,051	-	1	-	-	149,640
Other receivables	206	138	-	-	-	-	-	344
	109,023	77,552	2,651	1	436	10	58	189,731
Liabilities								
Due to customers	65,841	10,439	338	-	361	3	-	76,982
Due to banks	5,269	-	-	-	-	-	-	5,269
Borrowed funds	31,545	63,220	2,323	-	-	-	-	97,088
Subordinated loans	-	3,707	-	-	-	-	-	3,707
Repurchase agreement	1,701	-	-	-	-	-	-	1,701
Other liabilities	689	147	-	-	4	-	-	840
	105,045	77,513	2,661	-	365	3	-	185,587
Net position	3,978	39	(10)	1	71	7	58	4,144

35. RISK MANAGEMENT (CONTD.)

35.4 Market risk (Contd.)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. The effect on profit before tax for one year and on equity, assuming the historical annual prepayment ratio for the year, with all other variables held constant, is as follows:

	Prepayment rate %	Effect on net interest income MNT '000	Effect on equity MNT '000
At 31 December 2009			
Loans and advances to customers	3.47	111,491	-
At 31 December 2008			
Loans and advances to customers	2.76	63,470	-

Operation risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Bank cannot expect to eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back office functions, controlled access to systems, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Bank seeks to manage operational risk.

36. MONGOLIAN TRANSLATION

These financial statements are also presented in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.