



The Planet, People, Profit



Annual Report 2009

VISION

XacBank will become a leading financial institution in the country, by providing inclusive and value adding financial services to the citizens and expatriates, institutions and enterprises of Mongolia, while maintaining its leadership in the Global Microfinance Industry.

MISSION

To contribute to the socio-economic development of the country while creating a fair value for its shareholders. This will be achieved by providing inclusive, value adding, and reliable financial services to all people and entities of Mongolia through establishing a leading financial institution that is equally concerned about the Planet, People, and Profit.

The Bank will embrace premium customer service, dedicated and talented employees, corporate social responsibility, efficient usage of ICT and innovation, and effective partnerships at all levels.

CREDO

We believe our first responsibility is to our clients – rural and urban residents of Mongolia, micro and small business people, herders and employed people without conventional access to financial services.

In meeting their needs everything we do must be of high quality.

We must constantly strive to reduce our costs in order to maintain reasonable prices.

Client's orders must be serviced promptly and accurately in a friendly fashion.

Our business partners must have an opportunity to make a fair return.

We are responsible to our employees, men and women, who work with us throughout Mongolia.

Everyone must be considered as an individual.

We must respect their dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate to performance, and working conditions clean, orderly and safe.

We must be mindful of ways to help our employees fulfill their family and social responsibilities.

Employees must feel free to make suggestions and complaints.

There must be equal opportunity for employment, development and advancement adequate to qualification and performance.

We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities, in which we live and work.

We must be good citizens – abide by the laws, support good work and charities, and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

We must maintain in good order the property we are privileged to use, protecting the environment and natural resources as our own.

Our final responsibility is to our shareholders. Business must make a sound profit.

We must experiment with new ideas.

Research must be carried out, innovative programs developed and mistakes paid for.

Reserves must be created to provide for adverse times.

When we operate according to these principles, our clients will benefit from our services, our employees will have high morale, and shareholders should realize a fair return, which all in the end should lead to development of Mongolia.

Right Bank, XacBank

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Introduction

The Annual Report 2009 is our third one which integrates XacBank's financial and operational performance reports with sustainability information concerning all major activities. The Bank's enriched Vision and Mission, restated in the report, includes our firm commitments to a triple-bottom line banking within the framework of the Global Reporting Initiative (GRI)¹ on good corporate governance, economic, social and environmental performance, as built around the 3Ps: the Planet, People and Profit. The report covers the period from 1 January to 31 December 2009 inclusive.

XacBank's previous annual report was published in May 2009 and covered calendar year 2008. This report is based on the same basic principles as the 2008 annual report, including sustainability reporting and transparent disclosure of public information. Any changes to the methods of calculation used, if any, will be stated in the text.

Sustainability Reporting Principles

The relevant sections of this annual report for 2009 cover the corporate social responsibility (CSR) activities of the Bank. XacBank joined the Global Reporting Initiative's platform for sustainability reporting in January 2007. The GRI framework is widely recognized and well tested by hundreds of companies around the world. In order to make our CSR reporting even more complete, relevant and comparable, the Bank has prepared the content of this report in accordance with the Global Reporting Initiative's G3 Guidelines, published in October 2006. The Bank also used the GRI Financial Services Sector Supplements, which is specifically relevant to financial services sector, both on Social Performance published in November 2002 and on Environmental Performance published in March 2005. For more detailed information about our application of the G3 Guidelines, please see the GRI index.

The Bank joined the United Nations (UN) Global Compact² in October 2007. The GRI Guidelines' principles and performance indicators correspond to the requests contained in the UN Global Compact's mandatory annual Communication on Progress (COP), regarding its ten universally accepted principles in the core areas of human rights, labor, the environment and anti-corruption. This annual report provides an index to the Bank's performance with cross-references to relevant GRI indicators. Thus, the Bank has aligned its Global Compact reporting with the G3 Guidelines.

GRI Content Index

Global Reporting Initiative (GRI) guidelines provide an internationally consistent format for information about a company's performance, particularly with regard to social and environmental issues. XacBank produced this annual report using the latest GRI - Sustainability Reporting Guidelines, Version 3.0.

The overview on pages 6 and 7 lists the sections of the GRI 3 guidelines together with the references to the place in the annual report where this information can be found. The reference is either to a page or section in the report. Some places are marked 'NA', indicating that the Bank does not regard this item as directly relevant or applicable. In some places 'N1' is shown, indicating subjects that the Bank not reported due to insufficient data, but to be reported in the future, whereas 'N2' is marked for subjects that are not reported. In other places 'N2' is shown to indicate that there is no information on the subject currently. These areas will be further investigated to establish the depth of information that can be provided in our future annual reports. The shaded sections in the overview are additional indicators. Not shaded sections represent core GRI indicators, as defined in the G3 guidelines. Further information on this annual report, including the Bank's environmental and social governance information, may be obtained from the Sustainability Team.

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¹ www.globalreporting.org
² www.unglobalcompact.org

The PLANET



Our Footprint on the Living Environment



A CLIENT SUCCESS STORY

Mrs. A. Tsermaa and Mr. D. Dashtseren's household Buryad bread is famous in Dornod aymag and surrounding regions because of the ages-old recipe of this family and their traditional way of making bread. The "Onoodoi - Ondor" Buryad bread bakery in Choibalsan town was founded in 1992 by two brothers. The micro-enterprise started as a small family business with the help of brothers, sisters and their children. ▶▶

GRI CONTENT INDEX

Global Reporting Initiative (GRI) Reporting Element: Core and Selected Additional Indicators:
In preparing this annual report, the Bank has drawn on the GRI's guidelines for sustainability reporting. The following index indicates the location information relevant to specific GRI indicators.

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4.8 Mission statement	1
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4.17 Key shareholder topics	10-11

Performance Indicators Economic Performance		
EC1.	Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	32-33
EC2.	Financial implications and other risks and opportunities for organizations's activities due to climate change	N3
EC3.	Coverage of the organization's defined benefit plan obligations	58
EC4.	Significant financial assistance received from government	N3
EC5.	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	N2
EC6.	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	N1
EC7.	Procedures for local hiring, and proportion of senior management hired from the local community at locations of significant operation	37
EC8.	Development and impact of infrastructure investments and services supported provided primarily for public benefit through commercial, in-kind, or pro bono engagement	N3
EC9.	Understanding and describing significant indirect economic impacts, including the extent of impacts	30-31
Environmental Performance Indicators		
EN1.	Materials used by weight or volume	N1
EN2.	Percentage of materials used that are recycled input materials	N1
EN3.	Direct energy consumption by primary energy source	N1
EN4.	Indirect energy consumption by primary source	N1
EN8.	Total water withdrawal by source	N1
EN11.	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NA
EN16.	Total direct and indirect greenhouse gas emissions by weight	N1
EN17.	Other relevant indirect greenhouse gas emissions by weight	N1
EN19.	Emissions of ozone-depleting substances by weight	NA
EN20.	NO ₂ , SO ₂ , and other significant air emissions by type and weight	NA
EN21.	Total water discharge by quality and destination	N1
EN22.	Total weight of waste by type and disposal method	N1
EN23.	Total number and volume of significant spills	NA
EN26.	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	N1
EN27.	Percentage of products sold and their packaging materials that are reclaimed by category	NA
EN28.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	N3
Social Performance Indicators		
LA1.	Total workforce by employment type, employment contract, and region	37-38
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LA3.	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	52
LA4.	Percentage of employees covered by collective bargaining agreements	N2
LA5.	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	N2
LA6.	Percentage of workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	N2
LA7.	Rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities by region	N2
LA8.	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	N2
LA10.	Average hours of training per year per employee by employee category	38
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LA12.	Percentage of employees receiving regular performance and career development review	N2
LA13.	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	, 37
LA14.	Ratio of basic salary of men and women by employee category	37
HR1.	Percentage and total number of significant investment agreements that include human rights clauses or that undergone human rights screening	N1
HR2.	Percentage of significant suppliers and contractors that undergone screening on human rights and actions taken	N2
HR3.	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	N2
HR4.	Total number of incidents of discrimination and actions taken	N2
HR5.	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	N2
HR6.	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	N2
HR7.	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor	N2
SO1.	Nature, scope, and effectiveness and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	N1
SO2.	Percentage and total number of business units analyzed for risks related to corruption	N2
SO3.	Percentage of employees trained in organization's anti-corruption policies and procedures	N2
SO4.	Actions taken in response to instances of corruption	N2
SO5.	Public policy positions and participation in public policy development and lobbying	8-39
SO8.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	N3
PR1.	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	NA
PR3.	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	NA
PR5.	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	N1

PR6.	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	N1
PR9.	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N2

Additional Sector Specific Indicators

Financial Services Supplement 'Social performance'

CSR 1	CSR Policy	I, 39
CSR 2	CSR Organization	N1
CSR 3	CSR Audit	N1
CSR 4	Management of Sensitive Issues	N1
CSR 5	Non-Compliance	N1
CSR 6	Stakeholder Dialogue	39
INT1	Internal CSR Policy	39
INT2	Staff turnover and job creation	37
INT3	Employee satisfaction	N1
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SOC1	Charitable Contributions	N1
SOC2	Economic Value Added	N1
RB3	Lending with High Social Benefit	30-31

Financial Services Supplement 'Environmental Performance'

F1	Description of environmental policies applied to core business lines.	39
F2	Description of process(es) for assessing and screening environmental risks in core business lines.	39
F3	State the threshold(s) at which environmental risk assessment procedures are applied to each core business line.	N1
F4	Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process(es).	N1
F5	Description of process(es) for improving staff competency in addressing environmental risks and opportunities.	N1
F6	Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines.	N1
F7	Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities.	N1
F9	Percentage of assets subjected to positive, negative and best-in-class environmental screening.	N1
F10	Description of voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting.	NA
F11	Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting.	NA
F12	Total monetary value of specific environmental products and services broken down according to the core business lines.	NA
F13	Value of portfolio for each core business line broken down by specific region and by sector.	NA

Explanatory Note:

The criteria used here represent a summary of the criteria set out in the Global Reporting (GRI). For a full description of the criteria and the corresponding indicators, see: www.globalreporting.org.

NA - not applicable;

N1 - not reported due to insufficient data but to be reported in future;

N2 - not reported;

N3 - none

The United Nations Global Compact Principles

XacBank, as a good corporate citizen, has fully endorsed the United Nations Global Compact and strives to incorporate the ten principles in its corporate policies and business operations. The Bank also aims to move the sustainable development agenda forward on its performance related to human rights, labour rights, the environment and the fight against bribery and corruption through support of the Global Compact.

Human rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

Labour

Principle 3 Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation

Environment

Principle 7 Businesses are asked to support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery

Global Compact Principle	Relevant Global Reporting Initiative Indicators	Reference in Annual Report
1: Businesses should support and respect the protection of internationally proclaimed human rights; and	<input type="checkbox"/> HR1 <input type="checkbox"/> HR2 <input type="checkbox"/> HR3 <input type="checkbox"/> HR4	N1 N2 N3 N2
2: make sure that they are not complicit in human rights abuses.	<input type="checkbox"/> HR2 <input type="checkbox"/> HR3	N2 N1
3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;	<input type="checkbox"/> HR5 <input type="checkbox"/> LA3 <input type="checkbox"/> LA4	N2 37-39 N2
4: the elimination of all forms of forced and compulsory labour;	<input type="checkbox"/> HR7	37
5: the effective abolition of child labour; and	<input type="checkbox"/> HR6	37
6: the elimination of discrimination in respect of employment and occupation	<input type="checkbox"/> HR4 <input type="checkbox"/> LA10 <input type="checkbox"/> LA11	N2 37-38 33-38
7: Businesses are asked to support a precautionary approach to environmental challenges;	<input type="checkbox"/> 3.13	38,39
8: undertake initiatives to promote greater environmental responsibility; and	<input type="checkbox"/> EN1 <input type="checkbox"/> EN2 <input type="checkbox"/> EN3 <input type="checkbox"/> EN4 <input type="checkbox"/> EN5 <input type="checkbox"/> EN6 <input type="checkbox"/> EN7 <input type="checkbox"/> EN8 <input type="checkbox"/> EN9 <input type="checkbox"/> EN10 <input type="checkbox"/> EN11 <input type="checkbox"/> EN12 <input type="checkbox"/> EN13 <input type="checkbox"/> EN14 <input type="checkbox"/> EN15 <input type="checkbox"/> EN16 <input type="checkbox"/> 1.1	NA, NA, N1, N1, -- -, N1, -, N1, - -, -, -, N1 1
9: encourage the development and diffusion of environmentally friendly technologies	<input type="checkbox"/> EN17	20,31
10: Businesses should work against corruption in all its forms, including extortion and bribery	<input type="checkbox"/> SO2	8

Explanatory note:

The criteria used in this table represent a summary of the principles and indicators set out in the UN Global Compact and Global Reporting (GRI). For a full description of the principles and the corresponding indicators, see: www.unglobalcompact.org.

NA - not applicable;

N1 - not reported due to insufficient data but to be reported in future;

N2 - not reported;

N3 - none

"The more you know, the more you care."

Sam Walton

Dear Shareholders, Clients, Partners and Co-Workers,

The Board of Directors of XacBank is pleased to present to you this annual report of the results achieved by the Bank, as well as the Management Report and Audited Financial Statements for the year ended on December 31, 2009.

Year 2009 was a challenging one yet full of achievements for the Bank in the light of the global financial crisis, which adversely affected the Mongolian economy particularly the banking sector. The Board of Directors, as part of its policy-setting role, made crucial decisions with regard to the Bank's future business strategy and key policies, including the operational budget for 2010 and the new Business Plan for 2010-2012.

The Board of Directors is pleased to announce that the Bank made a net income of MNT2.5 billion after taxes. The Bank's return on equity (ROE) was 11.6 percent at the end of the year. As of 31 December 2009, the Bank had total assets of MNT320 billion, whereas its loan portfolio reached MNT196 billion.

The Bank increased its share capital by MNT5.0 billion in accordance with the decision from the Annual Shareholders Assembly held on May 22, 2009.

A pilot international investment, which was approved by the Boards of the Bank and TenGer in late 2008 after subsequent thorough discussions at their meetings for over 2 years, was made at the beginning of the year. Within the implementation framework of this pilot investment, XacBank and TenGer acquired 10.0 percent and 20.5 percent of share capital of Mol Bulak Finance MCC (MBF) of the Kyrgyz Republic. Ms. Bolor Tserendorj, former head of the Treasury Department, assumed the position of CFO of MBF. Although the Bank and TenGer exited MBF one year after the investment due to several reasons, including political risk, MBF now enjoys increasingly diversified funding sources with improved terms compared to a year earlier. Management reporting and liquidity management was advanced with the introduction of more frequent and comprehensive reporting including maturity and gap analyses. The Board considers that the first pilot investment in MBF not only served as a learning pad for cross-border investments but also confirmed the Group's ability to create value for shareholders through enhancements in corporate governance, institutional capacity development, and growth management.

There were some changes in the shareholders structure of TenGer Financial Group LLC (TenGer), a holding company of the Bank, in 2009. At the beginning of the year, the share sales initiated by ShoreCap International Ltd. and MicroVest I, LP were completed and EIT Capital Management LLC who purchased their shares became the single largest shareholder of TenGer. Further, Tuushin LLC sold out its shares in TenGer



The Board of Directors composition had major changes during 2009, with Mark Coffey of ShoreCap International and Pamela Eser from Mercy Corps departed, whereas Michael Madden and Sarah Djari from EIT Capital Management LLC joined the Board. Femke Bos and Teresa Yiu from Triodos and IFC respectively have resigned from the Board, and Olivier Marquet and Richard Ranken were duly appointed. Zorigt Nam-sraijav also departed from the Board after Tuushin LLC had divested its shareholding in the Bank's holding company - TenGer Financial Group. Lastly, Arvid Tuerkner from EBRD is to serve on the Board, replacing John Chomel-Doe.

to BlueOrchard Private Equity Fund, a Luxembourg based private equity fund.

The Board of the Bank had major changes starting from the beginning of the year. In February 2009, Mark Coffey, ShoreCap International and MicroVest-nominated Director, resigned from the Board and Sarah Djari nominated by EIT Capital Management LLC was appointed as an interim Director, with subsequent approval at the Shareholders' Meeting in May. In May, Pamela Eser, a Mercy Corps-nominated Director, departed from the Board and Michael Madden nominated from EIT Capital Management LLC joined the Board. In August, Femke Bos and Teresa Yiu resigned from the Board and Olivier Marquet and Richard Ranken were appointed as interim Directors by nominations from Triodos and IFC respectively. Zorigt Namsrajav also departed from the Board in August after Tuushin LLC had divested its 14.5 percent shareholding in TenGer. Arvid Tuerkner nominated from EBRD was appointed to serve as an interim Director in November replacing John Chomel-Doe.

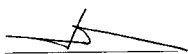
The Board wishes our departing colleagues all the best in their present and future endeavors and warmly welcomes the new Directors in their new and challenging positions. It firmly believes in the added value they are bringing in as outstanding professionals to the Bank for fulfilling its Mission, as well as contributing to the sustainable development of Mongolia.

The Board of Directors met in four plenary sessions during the year to decide upon matters as provided in the Charter of the Board, with no issues to call an extraordinary meeting. The five standing committees provided necessary technical input between the Board meetings, regularly monitored the Bank's management performance, reviewed key agenda items for further discussion and decision making by the full Board.

The Board oversaw the implementation of the transformation into a new core banking system – Flexcube - developed by Oracle Financial Services, the world's leading banking software supplier, and provided the Bank's management with strategic guidance required to complete the project successfully.

A decision was made by the Board of Directors of TenGer to engage Ernst & Young to conduct an external audit on the 2009 annual financial statements of TenGer and its affiliates and subsidiaries.

Other major decisions taken and endorsed by the Board last year include USD500.0 thousand loans to MBF, additional equity investment in Credit Information Bureau LLC, amendment to the Credit Policy of the Bank.



Ch. Ganbold

Chairman of the Board of Directors



Mr. Kirsan Ilyumzhinov, Head of the Republic of Kalmykia, Russian Federation, and President of FIDE - World Chess Federation, paid a visit on 3rd February 2009 to XacBank during his official visit to Mongolia. The main purpose and highlights of this visit were to learn more about the operations of the Bank, its institutional history, and to study the opportunities of the Bank and TFG's expansion in the region.

CHAIRMAN:

Mr. GANBOLD Chuluun Independent director, CEO of EDN LLC
Serving from 2003 to present

DIRECTORS:

Mr. James H. ANDERSON Mercy Corps, Manager of Financial Services
Serving from 2003 to present

Mr. BEKHBAT Sodnom Rotary Club of Ulaanbaatar, Board Member
Served in 2001-2003 and serving from 2005 to present

Mr. BOLD Magvan XacBank, CEO
Serving from 2009 to present

Ms. Sarah DJARI EIT Capital Management, Board Director
Elected in 2009

Ms. ERDENEJARGAL Perenley Open Society Forum, Executive Director
Serving from 2005 to present

Mr. GANHUYAG Ch. Hutagt TenGer Financial Group, CEO
Serving from 2001 to present

Mr. Michael MADDEN EIT Capital Management, Board Director
Serving from 2009 to present

Mr. Olivier MARQUET Triodos Fair Share Fund and Triodos-Doen, Fund Manager of Triodos Doen
Elected in 2009

Mr. Richard RANKEN International Finance Corporation, Senior Advisor
Elected 2009

Mr. Arvid TUERKNER European Bank for Reconstruction and Development, Senior Banker
Elected in 2009

Good Corporate Governance Principles

XacBank is fully committed to implementation of a good corporate governance system, with necessary structures and processes for the direction and control of a transparent and sustainable bank that aligns the interests of a wide range of different stakeholders, including its shareholders and investors, and its management and co-workers. Good corporate governance is contributing to the sustainable economic development by enhancing the corporate performance of the Bank and further increasing its access to external sources of required capital, as well as assuring efficient and effective use of its resources.

The Bank is currently in compliance with the Bank of Mongolia (Central Bank) Regulations on Implementation of Sound Governance Principles in Banking Institutions³, approved on 26 December 2006, as well as the OECD (Organization for Economic Cooperation and Development) Principles of Corporate Governance⁴, originally issued in 1999, revised in 2003 and agreed by OECD governments in April 2004. Together these principles provide the basic framework of the Bank in this area, identifying the key issues, including the rights and equitable treatment of shareholders, the role of stakeholders, public disclosure and transparency, and the responsibilities of the Board and management.

Particularly, the Bank's corporate governance framework ensures that timely and accurate information disclosure is made on all material matters regarding the Bank, including its financial situation, performance, ownership, and internal controls. Furthermore, it will ensure the strategic guidance of the Bank, the effective monitoring of the management by the Board, and the Board's accountability to the Bank's shareholders and all public stakeholders.

Corporate Governance Structure

The Bank continues to operate as a limited liability company, registered and incorporated under the laws of Mongolia. The Bank's ultimate authority lies with its shareholders. On behalf of the shareholders the Board has a policy setting role for the Bank, monitoring the activities of management and giving strategic guidance. The Chief Executive Officer (CEO) is appointed by the Board and is directly responsible for managing the day-to-day operations of the Bank, and reports on a regular basis to the shareholders and the Board. The CEO represents XacBank without the power of attorney as per the Bank Charter. The Board has established Standing Committees to focus on specific strategic areas. These Committees are governed by their respective Charters (i.e. By-laws) and report to the full Board during its regular and extraordinary meetings. Sub-committees or any other ad-hoc structure may be established by the Board in order to address specific or urgent issues from time to time. The Internal Audit Department (IAD) of the Bank reports to the Audit Committee, which in turn reports on the IAD's activities to the full Board of Directors. The position of the Corporate Secretary was established at the holding company level to facilitate a smooth functioning of the Board and assist in effective communication with the executive management.

Organizational Structure and Management Processes

The Bank is comprised of branch offices and the head office with divisions and departments under overall leadership of the Chief Executive Officer. In order to further simplify and streamline the Bank's operations and enhance succession planning, the front-office units report directly to the First Deputy Chief Executive Officer, and back-office units to the Deputy Chief Executive Officer, while the Bank's consolidated risk management as well as the legal and compliance units report to the Executive Management Board. The Internal Audit Division (IAD) continues to be directly accountable to the Bank's Board of Directors with a parallel reporting to the CEO. The IAD conducts on-site examinations of all branches and head office units, and reports to the Audit Committee of the Board. The management of the Bank has established the committees to ensure its proper functioning and follow-up. The composition and structure of the Bank committees is determined by the executive management in order to facilitate effective day-to-day management of its business affairs and sound internal controls.

³www.mongolbank.mn/web/guest/about_the_bank/regulation

⁴www.oec.org/document

The Bank has a nation-wide network of 78 branches and extension units. The extension units offer basic banking services and products, and located in the areas of strategic importance for the Bank where it is, nevertheless, not feasible to open a full scale branch office. Branches consist of a director and line managers responsible for finance, customer relations and credit operations, with corresponding teams/officers under these managers. Branches have three main committees: Branch Director's Council, Internal Control Committee and the Credit Committee which facilitate decision making processes at the field level.

Environmental and Social Reporting System

The Bank is strongly committed to the principles of sustainable development as exemplified by the implementation of its Social and Environmental Management System (SEMS) to address environmental issues, both social and ecological, arising from the Bank's operations since 2002. The Bank firmly believes that sustainable development can only come from educated and skilled people and businesses concerned equally about Profit, People and the Planet. To institutionalize this triple bottom approach, the compliance risk management function is set up at all appropriate levels and relevant units within the organization to ensure strict compliance of the Bank's business activities with not only national legislation and bilateral agreements with investors and shareholders but also internationally recognized norms and standards and management's beliefs.

The Bank will further improve and enhance its social and environmental management and its reporting system, including revision of its current policy document and will conduct a social and environmental performance audit on its operational impact. The Bank has appointed an ex-officio Environmental and Social Manager at the senior management level, and Compliance Officer at the operational level, who are ensuring a proper operation and maintenance of the Bank's SEMS. The Bank compiles and provides environmental and social reports on regular basis to its strategic shareholders and international investors.

The Bank also systematically gathers a data on social and environmental impact stemming out from its operations across the country, and provides its shareholders and stakeholders with environmental and social reports on a regular basis. Furthermore, the Bank has initiated in-house environmental protection measures aimed at efficient use of energy, fuel, water, reducing paper consumption and waste, as well as seek to form business relations with partners, suppliers, and clients who follow similarly the environmental standards.

Business Conduct and Code of Ethics

The Bank highly values personal integrity of its employees and business ethics at the all organizational levels, and aspires to further maintain its high public reputation for doing not only things right but also doing the right things. Moreover, the Bank is treating co-workers, customers, suppliers, shareholders and local communities with honesty and respect, as well as mitigates any conflict of interest situations at both management and operational levels.

The Bank management and co-workers strictly adhere to the following fundamental principles and basic standards of integrity, transparency and accountability, as approved and implemented through the relevant Code of Ethics:

- *Integrity and Transparency*: doing the "right thing" without compromising our customers, suppliers, and shareholders - even when circumstances make it difficult. We are clear, truthful and accurate in what we say and do.
- *Respect and Honor*: treating one another with respect and dignity; appreciating the diversity of our workforce, our customers and our communities.
- *Responsibility and Accountability*: taking accountability for ethical decisions and actions; asking for clarification when necessary and reporting concerns or violations in the workplace.
- *Good Citizenship and the Rule of Law*: complying with the spirit and intent of the laws that govern our business; contributing to the strength and well being of our communities and shareholders.

Code of conduct

A code of conduct is a set of rules and regulations, guidelines and management principles governing the way in which the employees of a company are expected to behave. It encapsulates a company's core values, which should form part of the fabric of its day-to-day activities. In other words, a code of conduct lays down the required standard of behavior for the company as a whole.

Compliance

Compliance – as the name suggests – refers to the systems and procedures within a company to ensure that it is in compliance with the applicable guidelines and statutory requirements. Companies should have a dedicated Compliance unit or designated officer for this purpose, responsible for checking that they are adhering to the relevant Mongolian and international regulations and legislation in respect of insider trading and money laundering, for instance.

Corporate citizenship

Corporate citizenship is the term used to describe the relationship between a company and its local environment. It covers the philanthropic activities of a company and its employees, as well as sponsorship, which is of mutual benefit.

Corporate governance

Corporate governance sets out the framework for the transparent management and monitoring of a company. The recommendations of the Mongolian Corporate Governance Code*, mainly designed for listed companies, serve to create transparency and underpin confidence that a company is being managed in a responsible manner. In particular, they afford protection to the shareholders of a company.

Corporate responsibility

Corporate responsibility describes the extent to which a company is aware of – and lives up to – its responsibilities in those areas where its activities have an impact on society, the employees of that company, the environment and the business landscape. In other words, corporate responsibility embodies a corporate philosophy based on transparency, ethical behavior and respect for the various stakeholders. It is an umbrella term, encompassing sustainability, corporate governance and corporate citizenship.

Corporate social responsibility

Corporate social responsibility covers all company's activities and programs designed to better preserve and protect the society in which we live for future generations, in the context of sustainable development. It is a key element of corporate responsibility.

Global Compact

The Global Compact is an initiative of the United Nations. Companies that sign up to the Global Compact undertake to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution, whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

Information Disclosure (also Public Disclosure)

The process of providing information to the affected local communities and other stakeholders that is timely, accessible, understandable, and in the appropriate local languages. For companies with potential adverse impacts, information on the purpose, nature and scale of the company, and any potential risks to and potential impacts on such local communities should be included.

Social and Environmental Assessment

The process of evaluating and addressing potential social and environmental impacts and risks of a company and identifying any mitigation or corrective measures that will enable the company to meet the requirements of the Performance Standards, applicable domestic laws and local regulations, and any additional priorities and objectives for social or environmental performance identified by the client.

Social and Environmental Impact Assessment

The Social and Environmental Impact Assessment report focuses on the significant issues of a company and predict and assesses the company's likely positive and negative impacts, in quantitative terms to the extent possible. Examines global, transboundary, and cumulative impacts as appropriate. Impact assessment includes baseline data, alternatives analysis and management program.

Social and Environmental Management System

The Social and Environmental Management System includes the organizational structure, responsibilities, policies, procedures and practices, and resources, and is essential for successfully implementing the company-specific management program developed through the social and environmental assessment of its operational impact. A good management system enables continuous improvement of the company's social and environmental performance, and can lead to improved economic, financial, social and environmental outcomes.

Social and/or Environmental Audits Report

Report focuses on (i) compliance of existing facilities and operations with relevant laws and regulations, and applicable International Finance Corporation (IFC) Performance Standards; and (ii) the nature and extent of significant adverse environmental impacts.

Sustainability

Sustainability is a holistic concept, based on an ecologically compatible, socially just and economically effective approach to development. That means using resources carefully, responsibly and efficiently – with a view to the here and now and generations to come.

* Approved by Resolution No. 210 of the Financial Regulatory Commission of Mongolia, 26 December 2007

MICROFINANCE CLIENT PROTECTION PRINCIPLES

XacBank has endorsed the Microfinance Client Protection Principles, initiated by the Center for Financial Inclusion and promoted by the Smart Campaign* in 2009. These principles are at core of the Bank's business operations and will be further implemented to strengthen its trust-building with the clients and customers in terms of being transparent in the pricing, terms and conditions of all financial products.

- **Avoidance of Over-Indebtedness.** Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that noncredit, financial products (such as insurance) extended to low-income clients are appropriate.
- **Transparent Pricing.** The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients.
- **Appropriate Collections Practices.** Debt collection practices of providers will not be abusive or coercive.
- **Ethical Staff Behavior.** Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.
- **Mechanisms for Redress of Grievances.** Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
- **Privacy of Client Data.** The privacy of individual client data will be respected, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).



The Bank launched a four-month of public savings campaign throughout the country. This first time campaign motto was 'Let's Start Saving!' Biggest prize at stake was a lucky draw for all participated clients, both existing and new, which ended successfully on 13th February 2009. A super winner – the Bank's client took home a brand new 'green' SUV car.

* www.smartcampaign.org

PEOPLE



Our Footprint on Human Society



▶ Mrs. A. Tsermaa and Mr. D. Dashtseren now manage the bread store together. Starting the business and marketing the bread was difficult. Most of the local population seldom bought bread and instead baked their own bread. With time and the word of mouth, the bread became popular household item. ▶▶

"Even if you are on the right track you will get run over if you just sit there."

Will Rogers

Executive Summary:

The management of XacBank is pleased to present the operational and financial performance reports for the 2009 fiscal year. The Bank hit new highs in 2009 despite the adverse impact of the global financial and economic crisis that included disruptions in the Mongolian banking sector. The Bank operated in a highly volatile environment, impacted by the highest inflation rate of the last decade, with a rapid depreciation of Mongolian Togrog (MNT), followed by a liquidity crunch in the financial sector, and a growing loss of public confidence.

XacBank not only reaffirmed its status as a leader in corporate social responsibility and an economic catalyst in the domestic market, but also proved to be a leading sustainable banking institution in the region. Some of the key highlights for 2009 are as follows:

- Total assets reached MNT319.9 billion, producing 53.8 percent growth in the last twelve months.
- Loan portfolio totaled MNT198.4 billion* (that includes MNT2.0 billion of accumulated interest receivable), with 84,304 active loans. The loan portfolio and number of active loans grew respectively by 31.1 percent and 34.3 percent on an annual basis.
- Franchisee and Savings Cooperatives operated in 75 soums and served 8,735 members.
- Portfolio-at-Risk (PAR) over 1 day was 3.7 percent of the total portfolio, compared to 2.0 percent in last year.
- Loan Loss Reserves were augmented by an additional MNT1.5 billion over the year, improving the Ratio to 1.6 from 1.1 percent in the end of 2009.
- Public Deposit reached MNT126.7 billion*, raising the Deposits to Loans ratio to 63.9 percent from 50.9 percent. The number of savings depositors increased from 113.8 thousand to 135.3 thousand.
- Net Interest Margin declined by 80 basis points, reaching 9.4 percent, due to the increase in Interest Expenses on Public Deposits and Borrowed Funds.
- Net income earned was MNT2.5 billion, with ROE 11.6 percent while ROA was 1.0 percent. Following the new capital increase the Bank's Total Capital topped MNT38.3 billion, including the newly raised sub-debt. Capital adequacy of the Bank rose to 17.2 percent, one of the highest in the banking sector.

The continued hard work of the Bank's investors and staff throughout the year allowed the Bank to end 2009 in the strongest financial condition it has experienced in years. Taking advantage of market opportunities, the Bank intensified promotion and marketing on lending as well as savings throughout the period. The Bank strived to sustain further growth during the last quarter of the year, despite lackluster loan demand and a reversal in sales growth abruptly caused by the additional shock of swine flu. Amidst the worst performing economy during the last 10 years, the Bank generated an impressive 53.8 percent growth in assets and passed the MNT319.9 billion benchmark. It also generated over 30 percent growth both in loan balance and numbers, and about 65 percent growth in public deposits balance, albeit two time decreases in deposit rates were introduced during the year. The Bank did not prefer to limit its growth but sought to manage it, and made over MNT 2.5 billion in profits after tax and maintained low earnings volatility compared with its competitors.

In terms of financials, the Bank exceedingly fulfilled all the prudential ratios set by the Central Bank, further proving reliability of its management and operation to its clients and stakeholders. The Bank not only witnessed significant growth, but also enhanced its reputation among the Mongolian business community by being granted the prestigious "Top 10 Outstanding Business Entity of 2009", the National Chamber of Commerce and Industry award. The Bank received the first ever Social Performance Reporting Award in the Silver Category powered by the MIX Market. The award is designed to promote greater transparency in MFIs' social performance and reporting. The Board of Director's regular quarterly meeting held in November approved the Bank's 2010-2012 Business Plan and Budget for 2010, among other important actions.

*in accordance with the International Financial Reporting Standards (IFRS)7.

In November 2009, Fitch Ratings downgraded XacBank's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B' from 'B+' with a negative outlook. The Bank's Support Floor Rating has been downgraded to 'B-' from 'B'. The Fitch Rating concluded that XacBank's ratings reflect its small but solid balance sheet, good profitability, very good corporate governance, as well as the potential for significantly higher credit costs, given the more challenging economic outlook. Fitch has also assigned a Support Rating Floor of 'B-' to Khan Bank, as well as a Short-term foreign currency IDR of 'B'.

Operational and External Environment

By the end of 2009, real GDP contracted by 1.6 percent YoY resulting from a 6.6 percent decline in the industry and construction sectors and 14.6 percent decline in tax income. Agriculture and services continued to exhibit growth. With respect to the budget outturn for this year, the 12-month rolling deficit improved and equaled MNT328.6 billion as of the end of December (which was MNT329.4 billion in Q3), reflecting both reduced expenditures and stabilization of the revenue decline. However, it remains high at around 9 percent of GDP. Zero inflation as of last September increased to 4.2 percent per annum by December because of 0.3 - 20.0 percent increase in all price groups except for food and non-alcoholic beverages. According to the report of the National Statistic Office, money supply (M2) at the end of 2009, expanded to MNT2,880.0 billion, which reflects an increase of MNT610.0 billion or 26.9 percent during the year. The exchange rate against the USD has not been volatile since April when the BoM raised its policy rate substantially and introduced an auction system. At the end of 2009, the exchange rate against the US Dollar was MNT1,442.8, appreciated slightly. This stabilization of the exchange rate has allowed the Bank of Mongolia to bring its international reserves to MNT 1.3 billion, back to the levels prior to the collapse of the copper price in late 2008. Mongolia's trade balance accumulated to USD228.7 million for the year.

According to the results of the Labor Force Survey (LFS) the number of unemployed was 119.0 thousand by the end of 2009. Out of that number, 38,100 were registered at Labor and Welfare Service Departments in aymags and the capital city and actively looking for jobs. This is an increase of 8264 persons or 27.7 percent compared to the previous year. In 2009, 1.4 million people received pensions, benefits and other social assistance from the government totaling MNT120.1 billion. The number of social welfare service recipients



Eleven of the world's leading sustainable banks, including XacBank, have created a new alliance to build a positive alternative to a global financial system in crisis. The banks, which have assets of over USD10 billion and serve over seven million customers in 20 countries, came together for the first time at a special meeting in the Netherlands from 2 - 4 March 2009. The banks in the Global Alliance for Banking on Values (GABV) range from BRAC Bank - part of the BRAC Group, the world's largest microfinance institution - to ShoreBank, a community bank based in Chicago, and Triodos Bank, Europe's leading sustainable bank.

increased by 7,500 people or by 0.6 percent. The total fund increased by MNT5.4 billion or 4.7 percent compared with the previous year. The number of female-headed households reached 81,200, an increase of 4,400 or 5.8 percent. In comparison with the average rate of the previous three years, it is an increase of 7.5 thousand or 10.2 percent. Moreover, 51.7 percent of Mongolian households with female-heads have up to three children, 37.3 percent of households have 3-5 children, and the remaining 11.0 percent have six or more children respectively.

Country ratings for 2009

Agency	Issuer Default Rating	Outlook	Date
Moody's	B1	Stable	Nov. 25, 2009
Fitch	B	From Negative to Stable	Oct. 13, 2009
S&P	BB-	From Negative to Stable	Nov. 23, 2009

In the banking sector, Zoos Bank went into receivership of BoM at the end of November 2009; deposits and performing assets were transferred to a newly established bridge bank, the State Bank. Anod Bank was also finally put into receivership, a year after conservatorship. The Zoos Bank situation does not seem to have had an adverse impact on overall confidence levels, likely in part reflecting the government's blanket deposit guarantee, put in place in November 2008 in response to the failure of Anod Bank. Total loans of the banking sector reached MNT2,655.0. Banks preferred to invest in Central Bank Bills and deposit their US dollar assets with the Central Bank because of the uncertainty in the economy despite the fact the BoM reduced its policy rate to 10 percent from 11.5 percent last September. Loan quality, is continuing to deteriorate due to slowdown in the key sectors of economy. NPL reached MNT462.0 billion at the end of 2009.

Decisive action steps taken by the Mongolian government supported by its external partners in early 2009 brought stabilization of the external sector and overall macroeconomic environment over the last three quarters. The tough measures and effects of the downturn in the economy unleashed strains in the financial sector, resulting in the resolution of two bank failures in order to retain confidence in the financial sector.

New Business Development and Performance

Several successful partnerships were established this year. A Girls' savings product was launched. The Mobile-banking product AMAR was introduced into the market with all four mobile operators providing channels for the product. An Eco-Unit was established and became operational making progress in the usage of FMO energy efficiency funds and accessing carbon revenues through MEC (Micro Energy Credits) that will help to scale up the program. The Bank's Kiva partnership turned into a success shortly after being implemented. Vittana, an online lending community that finances tuition for local students made its first steps. After long negotiations, a Guarantee facility was transformed into a Grant Agreement with the UNDP BEEP. In conjunction with MNCCI, the bank implemented and gained strong publicity from the Organic Mongolia project. Negotiations on an SME portfolio guarantee agreement with USAID, and agricultural sector loan guarantee agreement with ADB were completed.

At the end of 2009, the Bank's total loan portfolio reached MNT196.4 billion. The growth was mainly attributable to SME loans. Opposing this growth, was the swine flu pandemic and the accompanying state of emergency that the Mongolian government imposed for two weeks through closing secondary schools, open air markets and local inter-aymag transportation. This market disruption caused a decrease in demand for micro business and consumption loans. By the end of December 2009, the micro business loan portfolio hit MNT33.1 billion with a total of 16,938 loans. The total micro loan portfolio increased by 22.2 percent; the number of borrowers increased by 6 percent compared to the beginning of 2009. To promote effective savings mobilization the Bank revisited its product design, marketing and sales,

and introduced mobile banking technology to reduce transaction costs. As of December's end, the Bank's total public deposit portfolio (excluding current accounts) reached MNT114.8 billion, which is an increase of 73.3 percent from the beginning of the year. This growth is mainly attributable to the increase in demand and time deposit portfolio.

The Bank signed cooperation agreements with energy-efficient processed coal and sawdust briquette producers and started disbursing Eco-loans to ger-district households to get their fuel for winter in scope of the Clean Energy project, which is jointly initiated with FMO. By promoting usage of clean fuel at the household level, the Bank not only contributes to the air pollution reduction in Ulaanbaatar city, but also supports local clean fuel producers. According to the above-mentioned agreement, the Bank received TA from MEC to help the Bank to develop and launch Eco Product lines. On October 14th, MEC presented the Bank with its first carbon revenue, making XacBank the first MFI to receive a carbon credit in the Northern Hemisphere. The Bank disbursed a total of 428 eco loans during 2009.

The Bank signed a grant agreement for USD200,000 with UNDP Mongolia and received the 1st tranche of the grant in local currency equivalent to USD100,000. This grant will be used as a loan guarantee fund for the UNDP Building Energy Efficiency Project. The Bank has successfully started a marketing campaign of our brand products such as the 'Future Millionaire' children savings as well as the 'Aspire' girls and young women's savings products. In order to reach the youngest clients of age 0-5, the Bank issued MNT3000 vouchers for every newborn baby and distributed them through the maternity hospitals. Financial education lessons are provided to about 3,000 young girls' clubs in 110 schools throughout the country. The Bank has signed a cooperation agreement with internet based funding platform Vittana to raise funding for our student loan borrowers. In December, the first borrower profiles were uploaded on Vittana's website.

A promotion campaign of AMAR mobile banking (M-banking) services was launched in Narantuul, the largest open-air market place, and registered initially a total of 130 wholesale traders as merchants for this M-banking service. The service will allow the Bank's clients and traders to make payments for goods through their mobile phones. All of the Bank's clients have been solicited to register on-line for AMAR services via the internet. The Bank began a partnership with the Petrovis Company in the western region to act as AMAR agents and trained their staff. The Bank defined the requirements of second phase AMAR services and Admin tool II and delivered to HNS. In the second stage of the project, HNS will extend the number of services and develop a new flexible middleware solution, which will interface itself between the handset applications (or simple SMSs) and XacBank's core banking system. During the reporting period, the total number of AMAR clients increased by 14,480 and reached 25,782 while total agents increased by 1,086 and reached 2,103.

New co-branded card designs "Aspire" and "Together Against AIDS" were approved and ready to issue to the market.



The Bank received long term investment of USD12million from a public-private development bank FMO to further develop and support affordable housing and to eliminate air pollution in Ulaanbaatar. The 'Mongol Dream' project incorporating with Ulaanbaatar City Municipality and TV5 Channel has launched "Sunrise" district which is an affordable housing complex which can facilitate 6,400 families by the end of the project.

XacBank credit and debit cardholders are enabled to use free of charge cash back services at Mongol Post Company branch offices. By the end of Q4, the number of Western Union money transfers increased by 13 percent compared to the previous quarter and 86 percent compared to the previous year. In order to increase the number of Western Union money transfers, brochures were renewed and distributed to all branches and extension units. Commercial advertisement on Western Union service was broadcasted via over 100 LCD screens in Ulaanbaatar. The number of domestic money transfers decreased by 6 percent from the previous quarter and has been continuously decreasing in the market for the last two years. To increase the number of transactions, marketing was done in advertising through FM and TV channels, placing banners on newspapers, distributing fly cards in public areas and branches. In order to attract clients and increase competitiveness of the product the transaction fee of domestic money transfer was decreased.

The Bank's served its 1,000th Kiva borrower in the Fall. Over 1 million US dollars in disbursements has been made with an average loan size of USD1060 through 21 of the Bank's urban and rural branches. By the end of December 2009, the number of Kiva borrowers increased by 122 percent and reached 1124. The loan portfolio reached USD827,000, an 84 percent increase from the previous quarter due to 11 rural branches uptake in the project. The Bank with the Petrovis Company and the Mongolian Chamber of Commerce and Industry (MNCCI) organized client market days for the 'Organic Mongolia' Program. "Clean Production, Clean Environment and Clean Food" (the 3Cs) are the main components of the 'Organic Mongolia' Program. The Program's clients produce fresh and organic products and sell their products during the Market Days. During the market days, selected enterprises were certified as 'Organic Mongolia' and given a "Green label."

XacBank was the first ever recipient of the award for 'Excellency in Green Development for Successful Implementation of Clean Production, Clean Environment, and Clean Food.' The Bank successfully participated in a wholesale tender announced by the World Bank funded MDF (Microfinance Development Fund) and won a right to receive a fund of MNT600.0 million to support micro and small businesses. In addition, a monitoring task force of the World Bank worked in Suhbaatar and Hentiy aymags (provinces) for MDF loan disbursement. Last year the Bank successfully participated in a tender announced by Employment Generation Support Fund of Ministry of Social Welfare and Labor and received a fund totaling MNT900.0 million to distribute micro and small business loans. The project report of this Fund was delivered to the Ministry of Social Welfare and Labor (MSWL) and its conclusions show that the Bank contributed to 1365 job placements. The Bank's usage of the Fund exceeded at 116 percent. In addition, within a framework of its Student Business Credit project, the Bank disbursed a total of MNT200.0 million to 65 students, which resulted in creation of 99 job placements.

As of December, the number of the Bank's franchisee Savings and Credit Cooperatives (SCCs) was 75 with 8,735 members. The total assets of the franchisee SCCs reached MNT2.7 billion and their total outstanding loan portfolio reached MNT2.2 billion. However, the PAR of SCCs loan portfolio was still stable at a rate of 9.9 percent. In addition, 51 wholesale loans with a total portfolio of MNT690 million were disbursed to 39 SCCs. Under the agreement between G-Mobile Corporation and the Bank, franchisee SCCs are allowed to become official distributors of G-Mobile and offer leasing services of cellular phones in provinces. To improve the quality of its franchisee SCCs operation, the Bank supported executive office staff participation of its SCCs the "Governance and strategy planning of the SCC" training. Training was organized under the "Strengthen of the Mongolian SCCs" project organized by the Financial Regulatory Committee and the Information and Training Center for Mongolian SCCs. In addition, the Bank organized a conference with the heads of Franchisee SCCs to discuss their main complications and action plans for 2010.



In order to provide inclusive financial services to local residents and businesses, the Bank has extended its nation-wide network and inaugurated a new branch at a mining town of Tsogtsetsiy soum in Umnugovi aymag. This new branch office has opened one extension unit located at Tavan Tolgoy mining site, and set a goal to become one of XacBank's strategic rural branches.

Expected Economic Environment for 2010

The country is on the road to recovery from the worst economic crisis since 1996. The signing of the Oyu Tolgoi agreement boosted confidence within the local and international business communities. This confidence is underpinned by the belief that beginning in 2010, Mongolia's economy will enter a period of unprecedented growth. The economy will be dependent on the mining sector and prices of precious metals and commodities are predicted to rebound from current levels in 2010. The Domestic economy will be boosted by the anticipated mining sector development. As a result, MNT will stabilize and economic conditions will welcome foreign investments. Nonetheless, business sectors that are still in downturn pose a threat to the Banking sector. The following scenario is predicted by the Bank and other institutions on the Mongolian economy:

- According to the Government, International Monetary Fund (IMF), World Bank (WB) and rating agencies, GDP growth rate is predicted to be 7.4 percent in 2010. Average monthly salary will increase to MNT323.7 thousand next year.
- Money supply (M2) is expected to increase by 20 percent and reach MNT3.6 trillion in 2010⁵.
- The Mongolian foreign currency reserve will increase and the Mongolian Togrog will appreciate due to the inflow of investments associated with the exploration, development, and funding of major mining areas such as Oyu Tolgoi and Tavan Tolgoi. As a result, the foreign trade deficit will decline by 45 percent and the expected USD/MNT rate will be around MNT1,385 during the year and MNT1,394 by end of the year⁶.
- In 2010 the inflation rate is expected to be around 8.5 percent⁷. IMF and other independent rating agencies foresee Mongolian inflation between 5 and 8 percent.
- Total loan portfolio to the nominal GDP ratio will be around 44 percent. As a result, total gross loan portfolio of the Banking sector will grow 15 percent and reach MNT3.2 trillion while total assets will reach MNT4.2 trillion with an increase of 5.7 percent. Total public deposit will hit MNT2.4 trillion with an increase of 18.4 percent.
- Mergers and Acquisitions will be prevalent in the Banking sector due to the above mentioned reasons. As a result, competition in the Banking sector will be augmented.

The Bank would like to highlight the fact that this is its third annual report built around the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC) framework. The management and the entire XacBank team are expressing their strong commitment to the sustainable development of Mongolia, as anchored in its triple bottom-line Vision and Mission – committed to the Planet, People and Profit.



Bold Magvan, CEO



In 2009 a new team of the Bank's top staff performers climbed the Ochirvaan peak of the holy Otgontenger mountain at 4,300 meters, and earned their certificate and medal from the Mountain Climbing Association of Mongolia. This year's achievement has surpassed that of in 2008, when celebrating the 10th anniversary of the Bank, a group of best employees climbed the Asralthayrhan peak at 2,900 meters.

⁵ First review under the standby agreement, IMF, Jun 17, 2009.

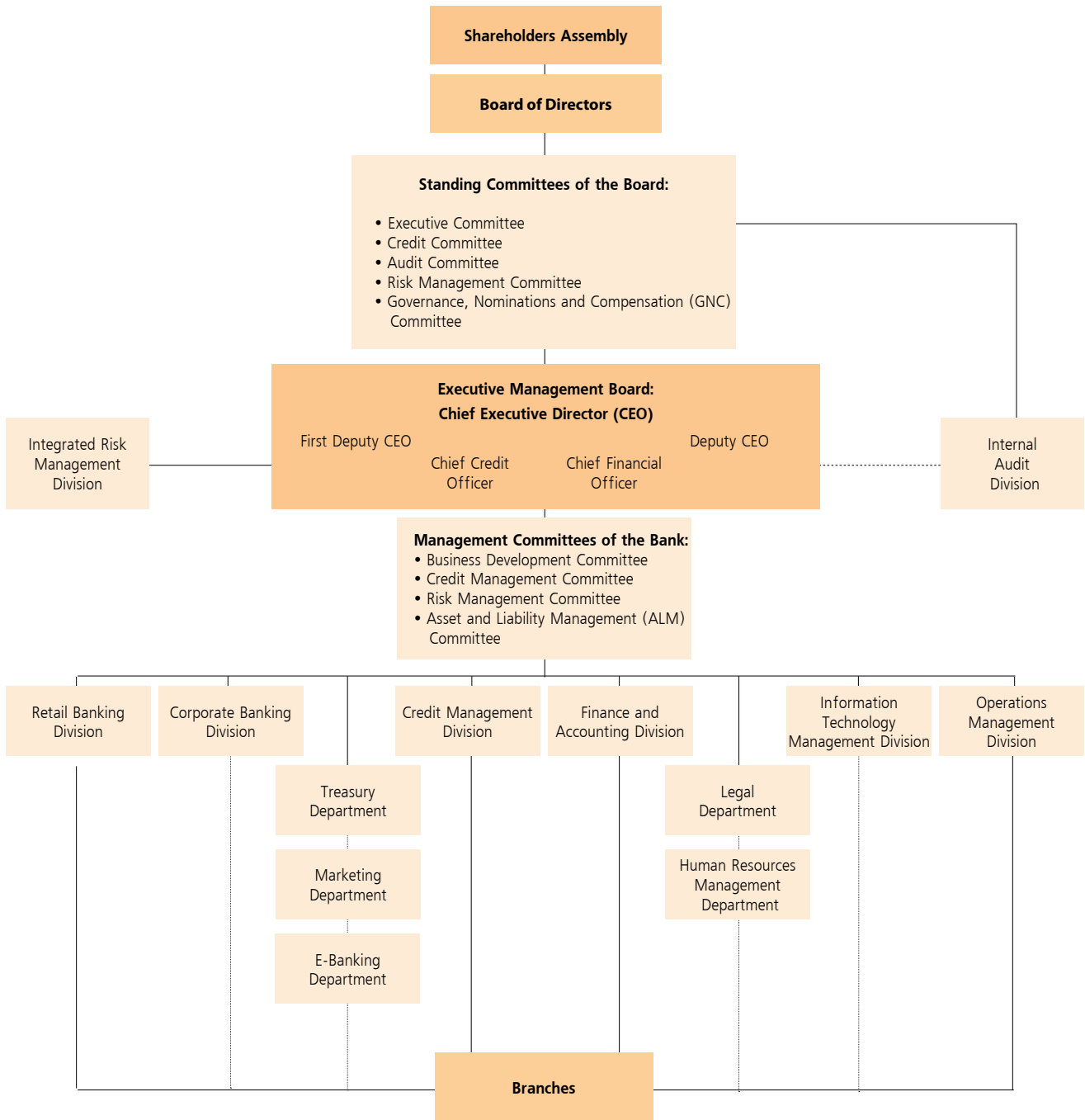
⁶ Medium term budget framework in Mongolia for 2010, Introduction of budget forecast for 2010-2012.

⁷ Medium term budget framework in Mongolia for 2010, Introduction of budget forecast for 2010-2012.

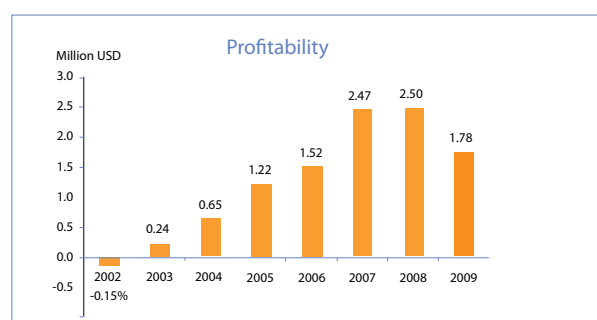
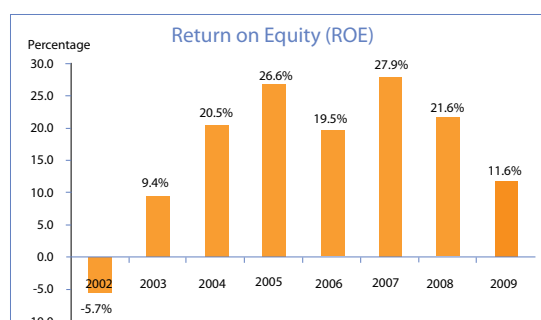
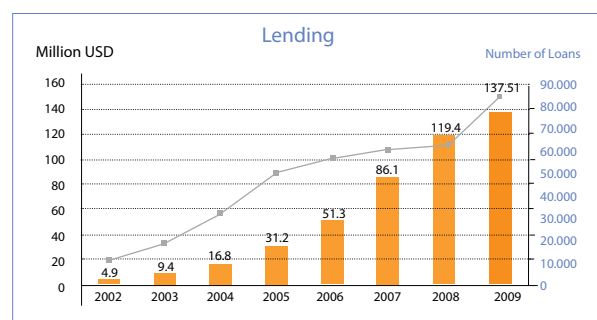
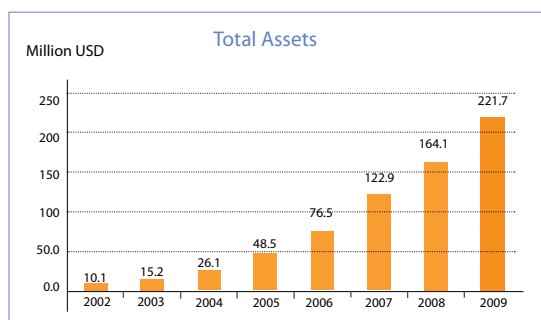
EXECUTIVE MANAGEMENT TEAM : As of March 31, 2010

BOLD Magvan	Chief Executive Officer bold.m@xacbank.mn
SORONZONBOLD Lhagvasuren	First Deputy Chief Executive Officer soronzonbold.l@xacbank.mn
DAURENBEK Serikjan	Director of Internal Audit Division daurenbek.s@xacbank.mn
DELGERJARGAL Bayanjargal	Chief Financial Officer delgerjargal.b@xacbank.mn
ERDENE BAYAR Ganzorig	Director of Integrated Risk Management Division erdenebayar.g@xacbank.mn
ERDENECHIMEG Dorjgotov	Director of Operations Management Division erdenechimeg.d@xacbank.mn
GERELMAA Yunden	Chief Credit Officer and Director of Credit Management gerelmaa.yu@xacbank.mn
OYUNGEREL Byambajav	Chief Microfinance Officer and Director of Retail Banking Division oyungerel.b@xacbank.mn
MUNHBAYAR Bathuu	Director of Information Technology Management Division munhbayar.b@xacbank.mn
TUUL Baljir	Director of Finance & Accounting Division tuul.b@xacbank.mn
TUR-OD Lkhagvajav	Deputy Chief Executive Officer turod.l@xacbank.mn

GENERAL ORGANIZATIONAL STRUCTURE: As of March 31, 2010



OUR GROWTH HISTORY AT GLANCE



Origins of the Bank's holding company-TenGer Financial Group

TenGer Financial Group, former XAC-GE LLC, was formally established in 2001, as a result of the merger between Goviin Ehlel⁸, NBF⁹, and X.A.C.¹⁰ with NBF to serve as a holding company of XacBank. Both Goviin Ehlel and X.A.C. were leading non-bank financial companies of the time focused on SME and microlending sectors, operating in non-overlapping geographies. They were both funded by donor projects and run by local and international NGOs with professional managers. Today TenGer Financial Group comprises several companies with strong positions in the financial sector of Mongolia.

During the merger in 2001 X.A.C. was transformed into an operating company, renamed to XacBank, and received a commercial banking license from Mongolbank¹¹, and Goviin Ehlel was renamed into XAC-GE, and became a holding company. The holding company did not have significant operations of its own since then and served exclusively as a shell company to accommodate different shareholders, who were exclusively focused on developing XacBank. This structure allowed founding NGOs to own and govern XacBank. It facilitated the entry of private local companies, international microfinance funds and, eventually, international financial institutions in the shareholder ranks of the Bank. From the very beginning, the holding company structure was devised with the view of eventual expansion into other lines of business such as leasing, insurance, etc. The mission of the XAC-GE read as "improving shareholders' value in order to create a group of financially viable and sustainable corporations"¹² in the original founding documents.

One of the first subsidiaries under XAC-GE besides XacBank became Netmon, another NBF, acquired by Goviin Ehlel and X.A.C. during 2001. This company provided wholesale loans and technical assistance to savings and loan cooperatives. It was then completely integrated with XacBank in 2002. This initiative is still run by XacBank under a brand name "Development Guide" and aims to support franchisee savings and loan cooperatives operating in remote rural areas through transfer of know-how and technology.

⁸ Gobi Start in English.

⁹ Non-banking financial institution.

¹⁰ Cyrillic acronym, reads as [hass] and stands for Golden Fund for Development in English.

¹¹ The Central Bank of Mongolia.

¹² Merger Agreement between X.A.C. Ltd. and Goviin Ehlel LLC dated October 1, 2001.

HIGHLIGHTS OF THE YEAR

JANUARY

- Ganhuyag Ch. Hutagt, CEO of the Bank, who has been on the executive management team from the early UNDP project stage, has taken over the full time position of CEO of TenGer Financial Group (TFG) - the holding company of XacBank, and Bold Magvan, who worked as President of the Bank since 2005, was appointed to the position of the Bank's CEO.

FEBRUARY

- Mr. Kirsan Ilyumzhinov, Head of the Republic of Kalmykia, Russian Federation, paid a visit on 3rd February 2009 to XacBank during his official visit to Mongolia. The main purpose and highlights of this visit were to learn more about the operations of the Bank, its institutional history, and to study the opportunities of the Bank and TFG's expansion in the region.

MARCH

- Eleven of the world's leading sustainable banks, including XacBank, have created a new alliance to build a positive alternative to a global financial system in crisis. The banks, which have assets of over USD10 billion and serve over seven million customers in 20 countries, came together for the first time at a special meeting in the Netherlands from 2 - 4 March 2009. The banks in the Global Alliance for Banking on Values (GABV) range from BRAC Bank - part of the BRAC Group, the world's largest micro-finance institution - to ShoreBank, a community bank based in Chicago, and Triodos Bank, Europe's leading sustainable bank.
- The Bank received long term investment of USD12 million from a public-private development bank FMO to further develop and support affordable housing and to eliminate air pollution in Ulaanbaatar. The 'Mongol Dream' project incorporating with Ulaanbaatar City Municipality and TV5 Channel has launched "Sunrise" district which is an affordable housing complex which can facilitate 6,400 families by the end of the project.



The Global Dignity Day was honored and celebrated first time in Mongolia. The event took place in the various parts of the country involving individuals from the all aspects of life. The Bank's CEO together with various business leaders in Mongolia signed the Global Business Oath, which was initiated by World Economic Forum and the Forum of Young Global Leaders. The significance of this event was that first time in Mongolian business history, many top executives showed up to make true commitment to a global cause that aspires for the better future of the world.

MAY

- XacBank introduced a new criteria for loan requests under the Global Reporting Initiative (GRI). Client meeting more than 50 percent of the new criteria enjoys special discounted interest rate on their loans. The criteria includes renewing the surrounding environment by planting trees, proper waste management such as recycling, sustainable water management, and the hiring of employees with disabilities for larger businesses.

JULY

- The Bank's Mobile phone-based banking service - AMAR ('Easy') went live from July 2009. Now clients can conduct cash-based transactions and payments using their mobile phones through a network of agents and merchants. The services can be used with all mobile operators in Mongolia. AMAR is enabled by Noomadic, a mobile banking platform developed by Horus Nomadic Solutions. To complement their new service, XacBank has also established partnerships with Petrovis and Mongol Post networks, located throughout the country.

SEPTEMBER

- XacBank launched its Eco Products Program offering low interest loans for energy products to poor clients in Mongolia. Through the Eco Products Program bank is providing an affordable means for Mongolian households to lower their fuel costs, breathe cleaner air, and stay warm in the depths of the long winter months.
- BlueOrchard Private Equity Fund, a Luxembourg based private equity fund acquired 14.51 percent of shares of the Bank's holding company TFG from one of the existing shareholders. The management of the Group and the Bank are confident that this equity investment by the new international investor will strengthen the strategy of the Group to become a full pledged financial services corporation in Mongolia and to expand cross-border in Eurasia.

OCTOBER

- Through its innovative partnership with Micro Energy Credits (MEC), the Bank has become the first micro-finance bank in the Northern Hemisphere to sell its carbon offsets and access financing through the voluntary carbon markets.
-
- The Bank launched a girls' education program in order to promote the financial literacy among the youth with the assistance of Women's World Bank (WWB) and Opportunity International. As part of this initiative, the Bank has rolled out a new savings product for girls, named TEMUULEL - 'Aspire'.

NOVEMBER

- XacBank become a recipient of the Silver Category in first Social Performance Reporting award from the World Bank-led Consultative Group to Assist the Poor (CGAP). The award is designed to recognize microfinance providers who provide reports on a set of social performance indicators. All winning MFIs are also working to measure the poverty level of their clients and how it changes over time.

DECEMBER

- XacBank as Kiva's partner MFI in Mongolia, approved its 1,000th loan and crossed the USD1 million mark for loans raised through Kiva. The Bank started its partnership with Kiva in January 2009, and has since then successfully provided credit to hundreds of borrowers with an average loan size of \$1060 USD through our 21 urban and rural branches. Together with the generosity of Kiva lenders around the World, our partners have enabled XacBank to expand its lending capacity and in turn helped Mongolian micro-entrepreneurs improve their lives.

KEY FINANCIAL AND OPERATIONAL FIGURES

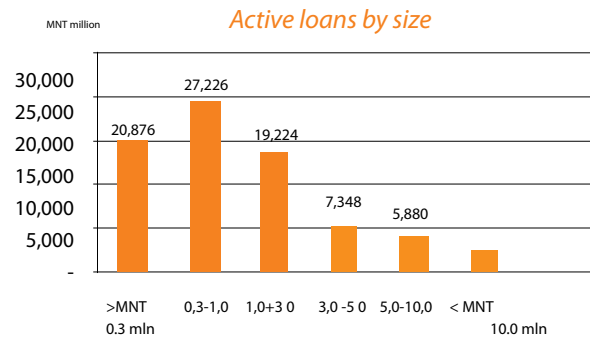
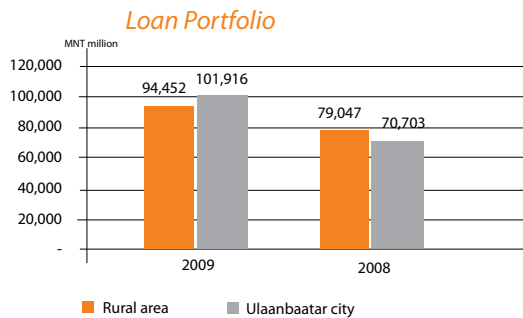
(in MNT million, unless specified otherwise)

KEY PERFORMANCE INDICATORS	2009	2008	Change (09-08)	Growth 09/08 (%)
GROWTH AND OUTREACH				
Total Assets*	319,898	207,970	111,929	53.8
Total Equity	29,459	21,896	7,562	34.5
Gross Loan Portfolio*	198,408	151,328	47,080	31.1
Number of Active Loan	84,304	62,788	21,516	34.3
Volume of Loans Disbursed	214,481	197,566	16,915	8.6
Number of Loan Disbursed	118,675	100,309	18,366	18.3
Savings Deposit*	115,194	66,359	48,835	73.6
Number of Depositors	135,336	113,789	21,547	18.9
Balance of Current Accounts*	11,543	10,623	920	8.7
Number of Current Accounts	68,882	70,945	(2,063)	(2.9)
Number of Cardholders	79,750	74,240	5,510	7.4
Number of SCCs	75	76	(1)	(1.3)
Number of SCCs' Members	8,735	7,584	1,151	15.2
Total Assets of SCCs	2,740	2,315	425	18.4
Total Loan Portfolio SCCs	2,171	1,957	214	10.9
Total volume of Remittances	11,657	281,901	(270,244)	(95.9)
Domestic Remittances	7,561	13,159	(5,597)	(42.5)
International Transfers & Remittances	4,096	268,743	(264,647)	(98.5)
Number of Staff	971	955	16	1.7
Number of Branch and Extension Units	78	74	4	5.4
Number of Soums covered	169	148	21	14.2
Number of LAC Members	58	139	(81)	(58.3)
PROFITABILITY AND PRODUCTIVITY				
Net Profit After Tax	2,562	3,168	(605)	(19.1)
Return on Average Assets (%)	1.0	1.8	(0.8)	-
Return on Average Equity (%)	11.6	21.6	(10.0)	-
Financial Self-Sufficiency (%)	105.9	106.1	(0.2)	-
Operational Self-Sufficiency (%)	106.7	114.4	(7.7)	-
Earnings per Share (MNT)	229	289	(60)	(20.7)
Yield on Portfolio (%)	22.0	21.4	0.6	-
Operating Cost Ratio (%)	72.3	72.5	(0.2)	-
Deposit to Loan Ratio (%)*	63.9	50.9	13.0	-
PAR> 1 Day (%)	3.7	2.0	1.7	-
Savers per Staff Member	143	119	24	19.8
Loan Officer Ratio (%)	29.1	27.1	2.0	-
Loan Officer Productivity	305	242	63	26.0
Portfolio per Credit officer	709	578	131	22.6
PRUDENTIAL RATIOS				
Equity and Risk weighted assets ratio (12%)	17.2	15.5	1.7	-
Reserve ratio (%)	1.6	1.1	0.5	-
Loans in Total assets (%)	61.2	72.8	(11.6)	-
Fixed assets to Total assets (%)	4.6	6.0	(1.4)	-
Borrowed Funds as percentage of Total Assets (%)	49.5	51.0	(1.5)	-
Related parties loans to the Equity ratio (<20%)	14.9	16.5	(1.6)	-
20 Largest borrowers to the Equity ratio (total)	42.0	40.3	1.7	-

*in accordance with the International Financial Reporting Standards (IFRS)7.

MICROFINANCE AND RESPONSIBLE BANKING

By the end of December 2009, the micro business loan portfolio hit MNT 33.1 billion with a total of 16,938 loans. The total micro loan portfolio increased by 22.2 percent; the number of borrowers increased by 6 percent compared to the beginning of 2009. As of December, the number of the Bank's franchisee Savings and Credit Cooperatives (SCCs) was 75 with 8,735 members. The total assets of the franchisee SCCs reached MNT2.6 billion and their total outstanding loan portfolio reached MNT2.2 billion. However, the PAR of SCCs loan portfolio was still stable at a rate of 9.9 percent. In addition, 51 wholesale loans with a total portfolio of MNT690 million were disbursed to 39 SCCs.



In terms of responsible banking activity, the Bank introduced a poverty measurement system to its micro loan clients. By measuring clients' progress out of poverty (PPI), the Bank focused on assessing microfinance projects and products offered to its micro clients. The reporting period covered 94 percent of total clients who received micro business loans from May 1st. As of December 31st, 18.1 percent of total Bank borrowers received microloans and are considered to be micro borrowers. Of those clients, 56 percent are classified as "poorer" and 29 percent are classified as "poor." Only 1 percent of all micro borrowers was considered as "very poor," 15 percent of borrowers were considered non-poor but vulnerable.

Key Indicators	2009	2008	09/08 (%)
Number of Loans Disbursed	118,675	100,309	18.3
Loan Disbursement (MNT million)	214,481	201,423	6.5
Number of active loans as end of year-end	84,304	62,788	34.3
Loan Portfolio Outstanding (MNT million)*	198,408	151,328	31.1
Average micro loan size (MNT)	1,952,473	1,445,758	35.1
Market Share (%)	7.2	5.7	26.9
Number of active savings and current accounts	283,728	258,974	9.6
Total deposit portfolio including current accounts (MNT million)*	126,737	76,982	64.7

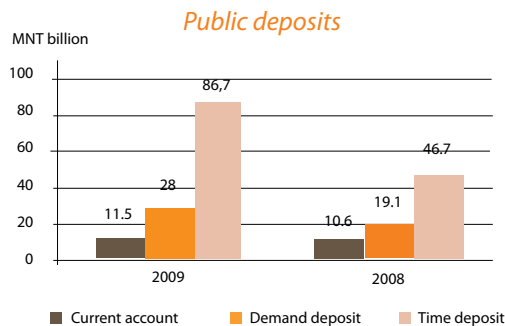
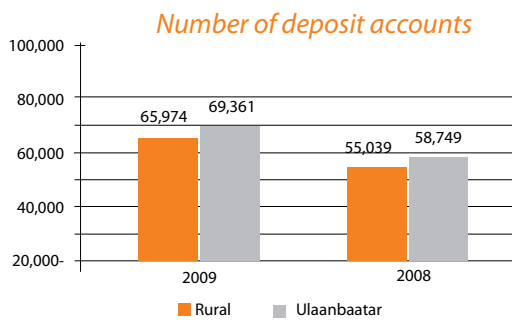
Within the scope of the financial education campaign, the Bank is working with Women's World Bank (WWB) on a girls' education program. As part of this initiative, the Bank is preparing to roll out a new savings product for girls, named TEMUULEL - 'Aspire' and organize a series of trainings on financial education with the new product launch. Financial education lessons are provided to about 3,000 young girls' clubs in 110 schools throughout the country. The Bank has successfully started a marketing campaign of our brand products such as the 'Future Millionaire' children savings, and in order to reach the youngest clients of age 0-5, the Bank issued MNT3000 vouchers for every newborn baby and distributed them through the maternity hospitals.

The young clients between the ages 18 and 35 comprise 33.3 percent of our total clients. Therefore, we believe that by providing business orientation and financial education to the youth and by offering appro-

* In accordance with International Financial Reporting Standard 7.

priate financial services to them we can establish a loyal client's base and perpetual relationship with our future clients. In addition, the Bank believes that the future of Mongolia rests on the shoulders of its young population and their ability to receive a quality education. Thus, in order to demonstrate its commitment to education, Bank disbursed a total MNT219.1 million tuition fee loans to 181 students, and to support student's employment generation provided a total MNT112.0 million loans to 33 students to start their own businesses. Average size of micro-loans was MNT1,952 thousand, up from MNT1,445 thousand from previous year. Loans up to MNT1.0 million comprised 51 percent of total loan, whereas loans up to MNT10 million is 95 percent.

In order to encourage our clients to act environmentally friendly while running their businesses, XacBank has introduced an economic, environmental and social performance reporting system under the Global Reporting Initiative (GRI). The system allows the Bank to continuously track the impact of its clients business activity on the environment. Indicators encourage client children's school attendance, building a green environment, managing household waste disposal and using energy efficient tools use to reduce not only one's expenses and but air pollution as well. 95 percent of micro clients currently fulfill at least two of the five GRI indicators. Of this group of clients, those clients that have been with XacBank for more than 180 days and who fulfill more than 50 percent of all indicators receive an interest rate discount on their micro loans.



The Bank's Kiva partnership turned into a success shortly after being implemented. By the end of year, the Bank successfully reached over 1,000 clients and disbursed over USD1 million dollars with an average loan size of USD1,060 through its 21 urban and rural branches. Total savings reached MNT115,2 billion showing a growth of MNT48.8 billion or 73.6 percent compared to the previous year. Deposit portfolio growth was mainly attributable to the increase in short term savings accounts and Future Millionaire, the long term children's savings product.



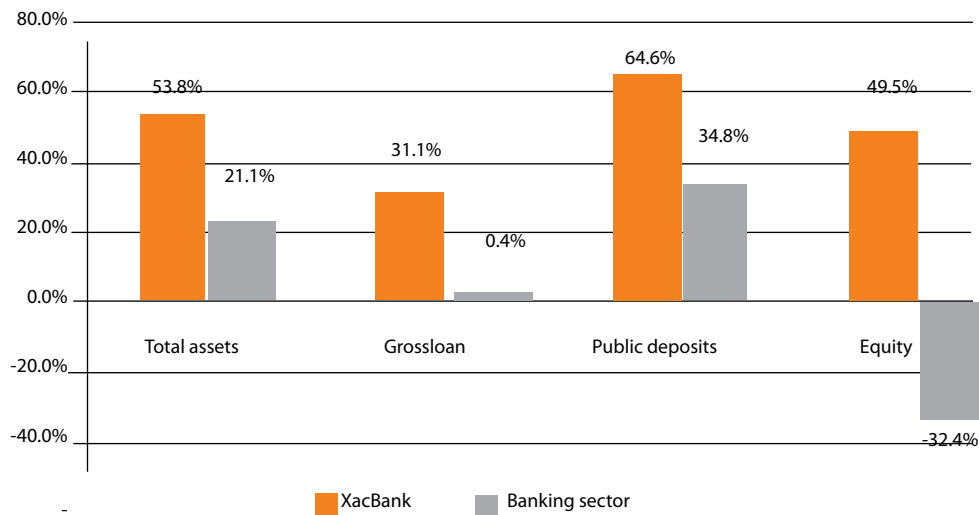
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FINANCIAL PERFORMANCE AND RESULTS

ASSETS AND LIABILITIES

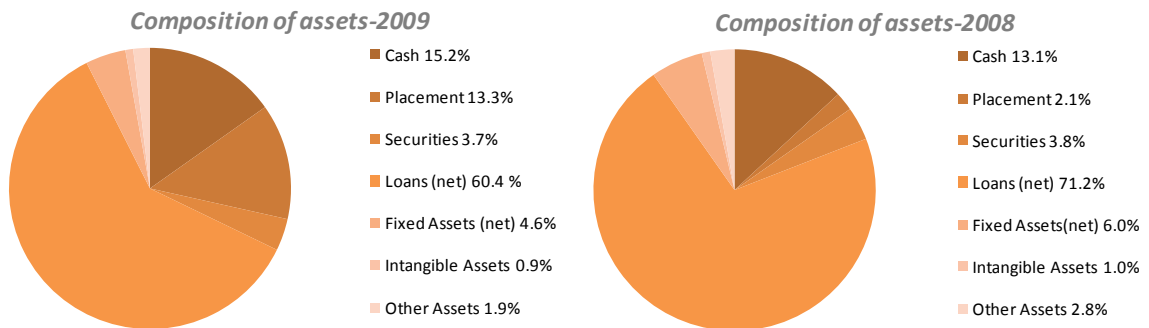
In 2009 the Mongolian economy was severely affected by the global economic downturn, which in turn brought distress on the country's banking system. Nonetheless, XacBank was able to maintain its position safely and increased its Total Assets by MNT111.9 billion to a total of MNT319.9 billion. This was the best performance in the banking sector, which had 21.1 percent growth on average.

XacBank Growth vs. Banking Sector (Year 2009)



Lending activity in the Mongolian banking sector was in frozen state during most part of 2009, but XacBank was able to increase its Total Active Loans by 21,547 thousand and grow its Loan Portfolio by 31.1 percent, equaling MNT196.4 billion. As a result, the Bank's share in the banking system equaled 7.2 percent, up by 1.5 percentage points.

Due to increase in the policy rate of the Bank of Mongolia and possessing surplus level of liquid reserves, the Bank actively invested in Bank of Mongolia's T-bill securities during 2009. Plus, increase in the Public Deposit caused the total liquid assets to grow by MNT63.2 billion, totaling MNT103.0 billion or comprising 35.2 percent of Total Liabilities.



The management's effort to enhance the Bank's operational capability through investing in a new Core Banking System increased Total Fixed Assets by MNT2.3 billion, making MNT14.7 billion in total. Fixed Assets to Total Assets Ratio was 4.6 percent, down by 1.4 percentage points from 2008.

PROFITABILITY

In 2009, the Bank's Net Income after tax equaled MNT2.5 billion, which gives 11.6 return on equity and earning MNT226.3 per share. Although, it was lower compared to the previous year's performance, but the Bank's profitability from its business operation has increased by MNT5.7 billion or 24.6 percent due to the increase in its loan portfolio.

in MNT million	2009	2008	09/08 %
Total income	40,554	31,985	27
Total expense	37,992	28,817	31.8
Net income	2,562	3,168	(19.1)
ROA (%)	1.0	1.8	(0.8)
ROE (%)	11.6	21.6	(10.0)

REVENUES

During the year, along with the increase in deposits, weighted average interest rate for loans in the banking sector was increased by 1.0 percentage points, equaling 21.7 percent. XacBank made MNT36.7 billion on Interest Income, up by 29.7 percent. Interest Income comprised 91.0 percent of Total Income of the Bank. Investment Income was MNT2.17 billion, up by 81.8 percent since the past year, due to the management's appropriate utilization of increased funds of the Bank and increased policy rate of the bank of Mongolia.

(in MNT million)	2009	2008	09/08 (%)
Interest Income on Loans	36,724	28,300	29.8
Investment Income	2,167	1,192	81.8
Commissions and Fees	2,715	1,828	48.6
Net Forex and Revaluation Income	(1,579)	293	(638.5)
Non-Operational Operating Income	527	371	41.9
Total Income	40,554	31,985	26.8

Due to the economic downturn, the country's money market experienced significant volatility, which brought increased foreign currency volatility exposure risk to the private enterprises. The Bank was affected by such risk during the year combined with the other negative aspects of the distressed economic environment in that it incurred significant foreign currency revaluation loss.

Commission and Fee Income were increased by 48.6 percent reaching MNT2.0 billion in 2009 due to the increased lending activity of the Bank. Income from Foreign Payment and Settlements equaled MNT203.5 million, up by 17.8 percent since 2008.



The Bank's Mobile phone-based banking service - AMAR ('Easy') went live from July 2010. Now clients can conduct cash-based transactions and payments using their mobile phones through a network of agents and merchants. The services can be used with all mobile operators in Mongolia. AMAR is enabled by Noomadic, a mobile banking platform developed by Horus Nomadic Solutions. To complement their new service, XacBank has also established partnerships with Petrovis and Mongol Post networks, located throughout the country.

EXPENSES

The Bank incurred MNT37.9 billion in expense during 2009. This was MNT9.0 billion or 31.8 percent higher than that of 2008. Increase in the Bank's weighted average interest rate of savings products due to shortage of funds in the banking system and growth in the Bank's Public Deposits, fueled by the aforementioned incentive, by 65.0 percent caused the Bank to incur MNT11.1 billion in Interest Expense, up by MNT4.3 billion compared to the previous year

(in MNT million)	2009	2008	09/08 (%)
Interest Expense on Current Account and Deposits	11,138	6,769	64.5
Interest Expense on Borrowed funds	9,816	7,826	25.4
Provision Expense	1,681	1,083	55.2
Personnel Expense	7,156	5,903	21.2
Other Operating Expense	7,767	6,376	21.8
Income Tax Expense	432	860	(49.7)
Total Expenses	37,992	28,818	31.8

MNT28.5 billion increase in Borrowed Funds was another cause for the Bank's increased Interest Expense on Borrowed Funds, which equaled MNT9.8 billion, up by MNT2.0 billion since 2008. During the year, LIBOR 6M rate for funds was maintained 1.3 percentage point lower than that of 2008; as a result, the Bank was in favorable position to receive cheaper funds from international financial organizations.

CAPITAL MANAGEMENT

A strong capital position is essential to the Bank's strategy, competitive position, and well-being. The Bank's capital strategy focuses on long-term stability, which enables it to expand its business while ensuring its stability, even in a highly stressed environment. The management of the Bank considers the implications on the Bank's capital strength prior to making any decision on the future business activities.

The Bank's capital management objectives are to hold capital sufficient to:

- Fulfill the Bank of Mongolia's minimum requirement on capital adequacy in terms of risk weighted assets of 12.0 percent,
- Maintain the Bank's capital adequacy in terms of risk weighted assets at minimum of 14.0 percent in line with internal limit set by the Board.
- Tier I capital is to comprise at least 70.0 percent of total capital,

December 31, (in MNT million)	2009	2008	09/08 (%)
Tier I Capital			
Common Shares	13,291	10,948	21.4
Reserve Funds	8,353	5,186	61.1
Additional Paid in Capital	5,252	2,595	102.4
Current Year's Surplus/Deficit	2,562	3,168	(19.1)
Total Tier I Capital	29,458	21,896	34.5
Tier II Capital			
Subordinated Debt	8,813	3,707	137.7
Total Capital	38,272	25,603	48.8

The Bank received USD3.0 million Subordinated Debt from Incofin Investment Management Fund in December 2009. Also, a MNT5.0 billion capital injection was made to the Bank from TenGer Financial Group. As a result, the Bank's Total Capital to Risk Weighted Assets equaled 17.2 percent, up by 1.7 percentage points, thus adequately fulfilling its own and Bank of Mongolia's requirements.

RISK MANAGEMENT

INTEGRATED RISK MANAGEMENT SYSTEM

The negative influence of the 2009 global financial crisis on the domestic economy and financial environment challenged the banking sector of Mongolia in regards to its risk management systems, structures and processes. As a result, new demand arose to improve the public confidence in the banking sector. In this environment, the Bank developed and implemented policies for enhancing its integrated risk management system, including to protect the Bank's assets and to insulate its clients and customers from relevant risks. The Bank developed an emergency plan to address expected risk and difficulties arising from the economic crisis and took several actions to protect its self from those risks. Within this framework, the Bank put in place various modern risk measurement systems. In addition, the Bank enhanced its corporate wide risk management system, treasury activities and internal audit and control systems with the assistance of KfW funding. Moreover credit scoring methodology for retail, micro and consumer lending were developed further and adjusted to fit the Mongolian economic climate.

The Bank calculates its expected credit losses using Probability of Default /PD/ and Loss Given Default /LGD/ in accordance with international accounting standards. In this year, expected credit loss /ECL/ is calculated at MNT3.2 billion from the total portfolio of MNT196.4 billion. Moreover, a loan provision established in accordance with procedures of the BoM is the same as an amount of ECL, which indicates that XacBank has done an adequate work to enhance its loan portfolio quality. The Bank applies Simple and EWMA methods to manage foreign currency risk and estimates the Value at Risk /VAR/ at a 99 percent confidence level. According to the VAR calculation, average expected daily maximum risk was MNT29.3 million or 0.1 percent of total equity, which shows that the Bank as optimized its foreign exchange risk.

LOAN PORTFOLIO QUALITY

In the reporting year, the Bank's credit policy was widely revised to better align to the changing environment. In particular, the lending limitations were newly assessed and broadened. As our Bank aimed to strengthen its position in the SME market focus was given to the market segmentation and their level of contribution to GDP using new systemized limitation schemes. As the economic outlook remained unfavorable, the Bank focused on mitigating credit risks and maintaining the highest portfolio quality in the market. Given the sharp deterioration in the business environment, the Bank experienced an abrupt increase of restructured loans. This negatively affected the overall assessment of the loan portfolio, but allowed the Bank to successfully usher in another year of business achievements.

The reporting year proved to be a year of dramatic changes with an enormous impact on the financial system and presented the greatest challenge of unparalleled severity for all banks. Despite of all these effects, XacBank managed to achieve the lowest Portfolio-at-Risk in the market at 3.74 percent. The market average was 22 percent.



XacBank as Kiva's partner MFI in Mongolia, approved its 1,000th loan and crossed the USD1 million mark for loans raised through Kiva. The Bank started its partnership with Kiva in January 2009, and has since then successfully provided credit to hundreds of borrowers with an average loan size of \$1060 USD through our 21 urban and rural branches. Together with the generosity of Kiva lenders around the World, our partners have enabled XacBank to expand its lending capacity and in turn helped Mongolian micro-entrepreneurs improve their lives.

EXTERNAL EVALUATION AND RISK ASSESSMENT

Due to the assignment of a negative outlook to Mongolia's sovereign ratings, and the Mongolian government bond's ratings resulting from the global financial crisis, Moody's has downgraded some ratings for the Bank from the previous year. However, Moody's Investor Services reviewed an assessment of the Bank to stable from negative the outlook on the B2 long-term foreign currency deposit ratings in November 2009. As a result, all the categories have "Stable" outlook.

	2009	2008
Long and short term foreign currency deposit rating	B2	B2
Long and short term local currency deposit rating	Ba3	Ba1
Long and short term foreign currency issuer rating	Ba3	D
Long and short term local currency issuer rating	Ba3	Ba2
Bank Financial Strength Rating /BFSR/	D-	Ba1

Fitch ratings assessed the Bank in June 2009. The agency's ratings are based on the Bank's strong corporate governance, solid revenues and liquidity. Within this dynamic, Fitch downgraded the Bank in several categories as a result of higher loan loss charges due to a volatile/difficult operating environment, with economic overheating being followed by inflation, a fall in the local currency, higher interest rates and tighter credit conditions.

	2009	2008
Foreign currency: Long-term IDR	B Negative	B+ Stable
Foreign currency: Short-term IDR	B	B
Local currency: Long-term IDR	B Negative	B+ Stable
Individual Rating	D/E	D
Support Rating	5-	4
Support floor Rating	B-	B
Sovereign Risk: Foreign currency long-term IDR	B Stable	B+ Stable
Sovereign Risk: Local currency long-term IDR	B Stable	B+ Stable

The Bank was rated among the best by the CAMELS system for the fourth year in a row. As the regulator of the banking sector, the Bank of Mongolia (Central Bank) uses a rating system called CAMELS, which is a bundle of ratios that includes capital adequacy, asset quality, management quality, earnings, liquidity ratio and sensitivity to market risk. XacBank was ranked as one of the best 100 MFI's in the world for the last four years in a row by MIX (Microfinance Information eXchange) Market.



XacBank launched its Eco Products Program offering low interest loans for energy products to poor clients in Mongolia. Through the Eco Products Program bank is providing an affordable means for Mongolian households to lower their fuel costs, breathe cleaner air, and stay warm in the depths of the long winter months..

The Bank was awarded the 'Excellency in Green Development' award and was named "GREEN BANK" by the MNCCI for its 3C concept of Clean Environment, Clean Production and Clean natural, organic foods and creating a green environment in the organization and implementing the energy-efficient operations

HUMAN CAPITAL MANAGEMENT

ORGANIZATIONAL CAPACITY BUILDING

As the competition for the most skilled professionals gets tighter, keeping employees motivated and happy has become even more important. As of the end of December 2009, the Bank held contract with 1,052 employees, of which 971 staff were on active payroll, 721 (74.3 %) employed at the branches and 23 (2.4%) at two business service centers dedicated solely to SME clients, and 227 (23.4%) at the headquarters.

Human Capital Structure	2009	2008
Number of employees	971	955
Average age of staff	30	28
% of staff aged above 35	14	16
International staff	2	3
Disabled staff	4	4
New jobs created	58	75
% of lending personnel to all staff	35.4	30
% of female lending personnel to all lending staff	55.5	53

The Bank's Human Capital Management efforts focused on strategic areas for its organizational capacity building in 2009, including the continued efforts to reduce staff turnover brought the ratio down to 16.48 percent, a drop of more than 4 percent from an average of 21 percent for the last four years. Moreover, the management team retention was preserved at high rates during the same period. Also, regular work performance assessment and feedback was given to all staff.

The Bank's organizational restructuring was conducted in 2009 to shift from a product based centered organization to a client relationship based organization. The Head Office reorganization was held in Q1 and followed by mirrored branch change in Q2. The major changes such as segregating lending staff into front and administrative functions helped to increase the productivity of the credit staff. The front office credit officer position was renamed into client relationship officer and the job content was enriched with the responsibility of selling other bank products and services besides loans. Separating administrative functions from sales will also contribute in strengthening the internal controls. A standalone branch model was also revised, and hub and spoke branch model as well as standards for the parent branches were developed. The new branch model is being piloted in several branches with a goal to roll out in 2010. In conjunction with the branch organizational restructuring, the Training and Development Center organized a series of workshops for relationship officers to explain the new job responsibilities and provide interactive sessions to increase deposit product knowledge, as well as sales and communication skills.

Related with the economic turmoil beginning from November 2008 the Bank's management has taken a number of actions that focused on cost management strategies such as hiring freezes, salary freezes (frozen wage levels), and restrictions of overtime. Cost reduction measures were also put on place such as reduced bonuses and benefits, reduced match to pension plan, and a four-day week for some staff was put in place in Q1 2009. All these cost reduction measures proved effective and the bank management decided to unfreeze the wage levels gradually for all staff in September and October 2009. Given some positive signs in the economy, a monthly variable pay structure was introduced selectively for the client relationship officers later in the year. According to the new system, a client relationship officer that meets certain performance criteria will be eligible to receive up to 20 percent of base salary.

STAFF DEVELOPMENT AND TRAINING

The Bank's Leadership and Management trainee program was launched in June and 3 high potential young trainees were selected for the program. To cultivate team spirit and preserve an organizational culture a mountaineering trip was successfully organized with 22 staff who together climbed the sacred mountain peak Otgontenger. Additionally, a two-day orientation workshop was organized for the newly joined staff

members. A 2009 annual staff town hall meeting was organized for all staff located in Ulaanbaatar. In total, 1,846 workdays of in-house training were attended by 445 staff (i.e. 45.8 percent of total staff attended training). 453 workdays of various international training and workshops were also attended to further promote professional development.

Human Capital Indicators	2009	2008
<i>To manage diversity as a competitive advantage, ensuring equal opportunities and respect to all employees:</i>		
Number of employees	971	955
Rural Branches	479	473
Ulaanbaatar Branches	6.9	247
Total Branches	720	720
Head Office	235	235
Managers to total staff (%)	6.9	6.8
Middle managers	57	50
Senior managers	10	13
Female managers to all managers (%)	40	41.5
Female staff to total staff (%)	61	61.3
<i>To promote professional development, by reconciling the Bank's and individuals interests:</i>		
Training man days	19,748	5,152
International training man days	8,905	2,384
Employees, participated in training	619	431
Employees, who have participated in training to total staff (%)	64.8	71.5
Evaluation of employee satisfaction with the training (mark out of 5)	4.6	4.6

The Bank successfully organized and repeated a two-week long credit training to Chinese MFIs representatives. Additionally, a one week mobile phone banking technology sharing workshop for the Kyrgyz government and MFI representatives was organized in May. The Bank hosted the workshop to introduce the organization and its business operations for staff of MolBulak.



Through its innovative partnership with Micro Energy Credits (MEC), XacBank has become the first micro-finance bank in the Northern Hemisphere to sell its carbon offsets and access financing through the voluntary carbon markets. Its proceeds will be used to further promote and market the Bank's eco-loans and other green credit lines in coming years.

SOCIAL AND ENVIRONMENTAL MANAGEMENT STRATEGY

XacBank will further improve and enhance its social and environmental management system, including conducting a regular social and environmental performance audit on its operational impact. The Bank's social and environmental policy will be guided by the principles of Corporate Social Responsibility, as a means of managing our business responsibly and sensitively for long-term success. We are committed to complying with national and international environmental regulations applicable to our operations and business services. The Bank will systematically gather data on social and environmental impacts from our operations across the country, and will provide its strategic shareholders and investors with environmental and social reports on a regular basis. The Bank will initiate in-house environmental protection measures aimed at efficient use of energy, fuel, water, reducing paper consumption and waste. We will seek to form business relations and alliances with partners, suppliers, and clients who follow similarly high social and environmental standards.

PUBLIC STAKEHOLDER DIALOGUE

XacBank strives to maintain a cordial and close relationship with all its key stakeholders, including shareholders, customers, business partners and the government. The Bank, besides its regular customer satisfaction survey, has organized a number of public consultative meetings with its clients to hear about their concerns on issues of access and quality of its financial services. As part of its work with rural area based SCCs, the Bank supports the Consultative Council of Franchisee Cooperatives, established to share their local knowledge and learning experiences in the field.

During 2009 the Bank continued to play a pro-active role in the Mongolian Bankers Association (MBA) as a professional forum in the banking sector, and is still leading a number of initiatives, including establishment and registration of the private sector led Credit Information Bureau (CIB) LLC, of which the Board of Directors is chaired by the Bank's CEO. In recognition of XacBank's active role since its inception, the Bank's CEO also served as the MBA's Vice President since 2008. The Bank accepted the Ministry of Social Welfare and Labor's invitation to become an ex-officio member and has sat as a representative of the private sector employer in the tri-partite (i.e. the government, employers and employees) Sub-Council on Employment Issues for Disabled Persons since 13 February 2007. The Bank's representative also serves on the Board of the National AIDS Foundation since 2008.

The Annual Shareholders Assembly and regular meetings of the Board of Directors are used to present not only the Bank's financial results and operational performance, but also to present new initiatives and discuss the future strategy and key policies. Since December 2007 the Bank operates its Public Advisory Committee, which plays an important role in improving public stakeholder dialogue, and is composed of the following prominent public figures:

BAABAR Batbayar	<i>Ex-Finance Minister of Mongolia</i>
BYAMBASUREN Dash	<i>Ex-Prime Minister of Mongolia (1990-1992)</i>
JANTSANNOROV Natsag	<i>The twice State Awarded People's Artist, and Chair of the Arts Council of Mongolia (ACM) Board</i>
LHAGVASUREN Bavuu	<i>The State Awarded People's Writer, Director of the Arts and Culture Agency</i>
MUNHUU Dorj	<i>Head of 'Gal Golomt' Movement NGO, and Member of National Council for Gender Equality</i>
SODNOM Dumaa	<i>Ex-Prime Minister of Mongolia (1984-1990)</i>
Hamba Lama, Gabju CHOIJAMTS Demberel	<i>Head of the Center of Mongolian Buddhists, Abbot of Gandan Tegchinling Monastery, President of the Asian Conference of Buddhists for Peace</i>

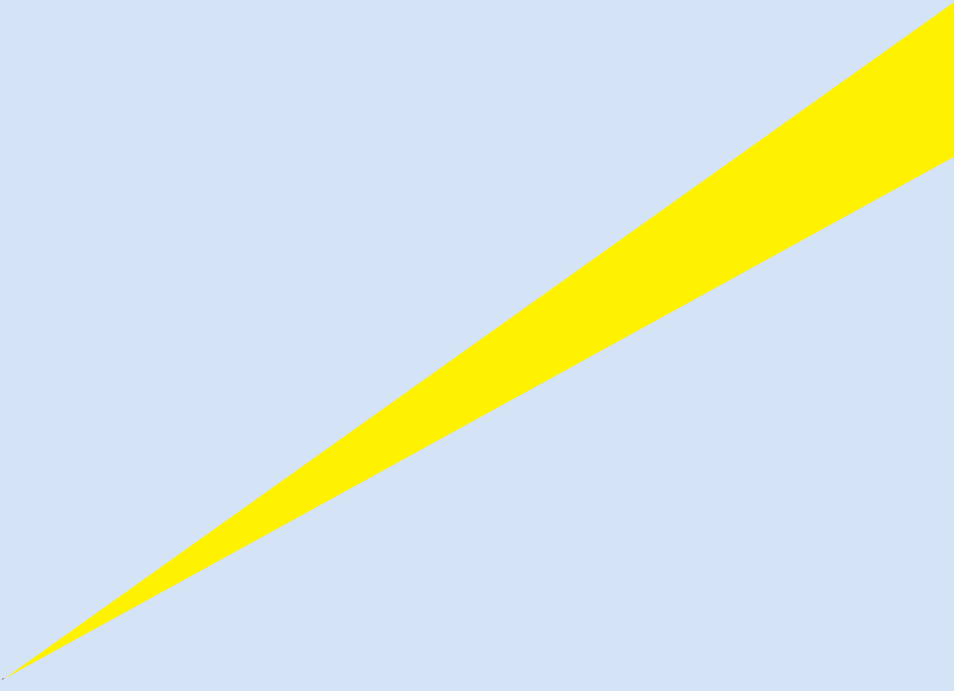
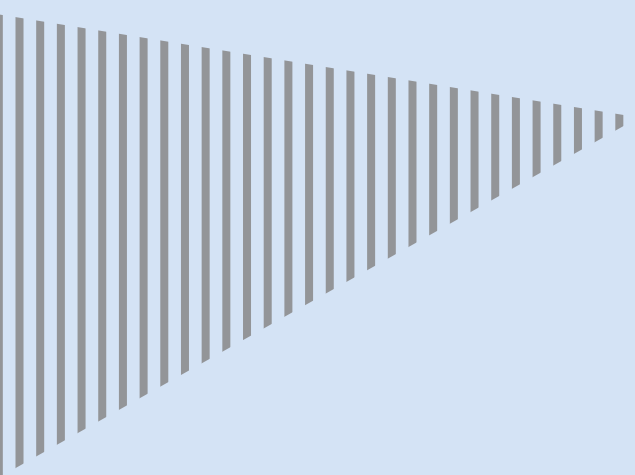
PROFIT



Our Footprint on Economic Development



► Mrs. A. Tsermaa and Mr. D. Dashtseren, now have the factory with 3 workers and a distribution network that covers 50 stores, and their factory almost never stops producing. XacBank loans have helped expand and sustain their micro business. ►►



XacBank LLC
Audited Financial Statements
31st December 2009

Ernst & Young
AF:0039

XacBank LLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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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. Michael Madden Mr. James H. Anderson Mr. Olivier Marquet Ms. Sarah Djari Mr. Arvid Tuerkner Mr. Richard Ranken
CORPORATE SECRETARY:	Mr. Amarbayasgalan Dashnyam
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: 30 MAR 2010

REPORT OF THE INDEPENDENT AUDITORS To the Shareholders of XacBank LLC

We have audited the accompanying financial statements of XacBank LLC, which comprise the balance sheet as at 31 December 2009 and the income statement, statement of changes in equity and cash flow statement 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

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, 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.

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.

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.



ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants



CHUNG SING PETER YONG
Partner

Ulaanbaatar, Mongolia

Date: 30 MAR 2010

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 expenses	4	(21,111,773)	(14,595,147)
Net interest income		17,779,662	14,897,495
Net fees and commissions	5	2,451,345	1,827,634
Other operating income	6	298,103	775,042
Operating income		20,529,110	17,480,171
Operating expenses	7	(15,892,926)	(12,369,650)
Operating profit before credit loss expense		4,636,184	5,110,521
Credit loss expense	8	(1,641,519)	(1,083,385)
Grant income	21	320,678	118,421
Grant expenses	21	(320,678)	(118,421)
Profit before tax		2,994,665	4,027,136
Income tax expense	9	(432,320)	(859,573)
Profit for the year, representing total comprehensive income for the year attributable to equity holders of the Bank		2,562,345	3,167,563

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 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		13,290,651	5,252,103	8,353,389	2,562,345	29,458,488

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 MNT '000	2008 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	5,818,071	5,625,801
<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	33,693,110	(41,976,696)
Income tax paid	(920,367)	(539,709)
Net cash flow used in operating activities	32,772,743	(42,516,405)
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	(7,469,035)	(11,803,049)
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	30,875,287	56,652,039
Net increase in cash and cash equivalents	56,178,995	2,332,585
Cash and cash equivalents brought forward (Note 27)	31,775,290	29,442,705
Cash and cash equivalents carried forward (Note 27)	87,954,285	31,775,290

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 SCC
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

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.

(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 an instrument by instrument basis

- 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'.

(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 profit or loss;
- Those that the Bank, upon initial recognition, designates as available for sale; or
- 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 deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

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.

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
- 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 the asset and the maximum amount of consideration that the Bank could be required to repay.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(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.

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.

(j) 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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Impairment of financial assets (Contd.)

(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'.

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'.

(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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Impairment of financial assets (Contd.)

(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.

(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.

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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.

(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 as collateral', as appropriate.

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 in 'Net trading income'.

(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 Economies
* 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:

(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 disclosures.

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.

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

(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's 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	(191,399)

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 (Amendment)
* 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:

(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.

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.

(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

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

IFRS 9: Financial Instruments (Contd.)

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 discussed as follows:

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 MNT'000	2008 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 from financial asset not at fair value through profit or loss	38,891,435	29,492,642

4. INTEREST AND SIMILAR EXPENSES

	2009 MNT'000	2008 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	21,111,773	14,595,147

5. NET FEES AND COMMISSION INCOME

	2009 MNT'000	2008 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
	2,715,284	2,039,693
Less: Fees and commission expenses	(263,939)	(212,059)
Total net fees and commission from financial asset not at fair value through profit or loss	2,451,345	1,827,634

6. OTHER OPERATING INCOME

	2009 MNT'000	2008 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
	298,103	755,042

7. OPERATING EXPENSES

	2009 MNT'000	2008 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	92,915
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
	15,892,926	12,369,650
* 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
	7,155,919	5,903,150

8. CREDIT LOSS EXPENSE

	2009 MNT'000	2008 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
	1,629,524	1,073,647
Other receivables	11,995	9,738
	1,641,519	1,083,385

9. INCOME TAX EXPENSE

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

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 MNT'000	2008 MNT'000
Profit before tax	2,994,665	4,027,136
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	432,320	859,573

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations.

10. CASH AND SHORT TERM FUNDS

	2009 MNT'000	2008 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
	8,928,250	7,488,261

11. DUE FROM BANKS

	2009 MNT'000	2008 MNT'000
Current accounts with the Bank of Mongolia	47,418,918	14,378,543
Placements with other banks and financial institutions	35,024,567	9,908,486
	82,443,485	24,287,029

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 utilise 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		Total MNT'000
	Held-to-maturity MNT'000	Available-for-sale 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
	8,413,873	3,460,320	11,874,194
	2008		Total MNT'000
	Held-to-maturity MNT'000	Available-for-sale 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	-	224,300	224,300
	7,748,088	224,300	7,972,388

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	198,407,766	151,328,125
Less: Allowance for impairment losses	(3,158,909)	(1,688,419)
	195,248,857	149,639,706

13. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

	Small Business Loans MNT'000	Consumer MNT'000	SME Loans MNT'000	Agricultural Loans MNT'000	Wholesale Loans MNT'000	Mortgage Loans MNT'000	Apartment Pledged Loans MNT'000	Deposit Backed Loans MNT'000	Employee Loans MNT'000	Total MNT '000
At 31 December 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	556,673	402,514	1,445,784	139,259	4,631	421,233	120,041	98	58,676	3,158,909
Specific Impairment	143,151	76,540	1,085,490	94,532	-	117,806	76,709	-	1,144	1,595,372
Collective Impairment	423,523	327,974	360,293	44,727	4,631	303,427	43,332	98	57,532	1,563,537
	566,674	402,514	1,445,783	139,259	4,631	421,233	120,041	98	58,676	3,158,909
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	227,500	102,204	3,959,042	151,462	-	295,926	94,698	-	1,268	4,832,100

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 MNT'000	Consumer Loans MNT'000	SME Loans MNT'000	Agricultural Loans MNT'000	Wholesale Loans MNT'000	Mortgage Loans MNT'000	Apartment Pledged Loans MNT'000	Deposit Backed Loans MNT'000	Employee Loans MNT'000	Total MNT'000
At 31 December 2008										
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	1,432,634
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)	(358,987)
At 31 December 2008	371,786	303,123	564,031	145,963	10,166	134,788	156,239	101	2,223	1,688,419
Specific Impairment	176,538	99,918	561,519	126,423	2,399	15,626	119,012	-	1,212	1,102,646
Collective Impairment	195,248	203,205	2,512	19,541	7,766	119,161	37,228	101	1,011	585,773
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	371,786	303,123	564,031	145,963	10,166	134,788	156,239	101	2,223	1,688,419
	246,750	137,564	3,444,446	174,220	23,472	28,997	207,754	-	1,253	4,264,456

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 MNT'000	2008 MNT'000
Other receivables	383,984	401,089
Less: Allowance for impairment losses	(60,105)	(57,283)
	323,879	343,806
Foreclosure 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
	3,776,240	4,095,404
Allowance for impairment losses of other receivables		
At 1st 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 31st December 2009	60,105	57,283

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 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	8,564,881	3,586,310	3,888,184	118,073	249,194	18,654,359
Accumulated Depreciation						
At 1 January 2009	463,113	727,672	1,373,106	-	-	2,564,891
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	651,687	962,386	2,247,717	10,888	-	3,872,678
Net Book Value	7,913,194	2,623,924	3,888,184	107,185	249,194	14,781,681

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

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 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	2,542,947	109,712	104,028	-	(2,932,740)	(176,055)
At 31 December 2008	7,514,921	3,112,096	3,519,750	78,080	801,929	15,026,776
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	463,113	727,672	1,373,106	-	-	2,563,891
				-		
Net Book Value	7,051,808	2,384,424	2,146,644	78,080	801,929	15,026,776

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 1 December 2009	474,954	12,891	-	487,845
Net Book Value	685,793	76,005	2,083,718	2,845,516
At 31 December 2008				
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 1 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 MNT'000	2008 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
	126,736,567	76,982,135

18. DUE TO BANKS

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

19. DEBT ISSUED AND OTHER BORROWED FUNDS

	2009 MNT'000	2008 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 Fonds	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
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	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	-
Vitana	755	-
	116,634,626	90,801,248

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

Borrowed funds from BOM and government agencies		
Unsecured:		
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 Japan International Cooperation Agency	1,544,244	451,382
SME Development Fund	5,149,249	-
	13,855,842	6,286,716-
	97,087,964	97,087,964
Totals	130,490,468	97,087,964

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.

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.

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

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.
- (v) 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.
- (vi) 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.
- (ii) 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

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.

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.

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

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..

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.

Monarch Community Fund, LLC

The loan obtained from Monarch Community Fund, amounting to USD 500,000, bears interest at rate of 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.

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

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. .

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..
- (ii) 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 of 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.
- (ii) 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.

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.

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

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.

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 Japan Bank for 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

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

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

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 MNT'000	2008 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	-
	384,055	102,157

Movements in the deferred grants are as follows:

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	384,055	102,157

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;

21. DEFERRED GRANTS (CONTD.)

- 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

"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	-
• 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	-
	320,678	118,421

22. OTHER LIABILITIES

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

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 MNT'000	2008 MNT'000
At 1 January	105,394	47,553
Recognised in income statement (Note 9)	88,285	57,841
At 31 December	193,679	105,394

25. ORDINARY SHARES

	Number of Ordinary Shares of MNT1,000 each		Amount	
	2009	2008	2009 MNT'000	2008 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	13,290,651	10,947,830	13,290,651	10,947,830

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 MNT'000	2008 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
	91,371,735	31,775,290
Less: Minimum reserve with Bank of Mongolia not available to finance the Bank's day to day operation (Note 11)	(3,417,450)	-
	87,954,285	31,775,290

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
	200,639	98,179	298,818
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
	2,225	18,855	21,080
Total	202,864	117,034	319,898
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
Subordinate loans	26	8,788	8,814
Other liabilities	1,592	162	1,754
	154,484	135,379	289,862
Non financial liabilities			
Deferred grants	152	232	384
Deferred tax liabilities		194	194
	152	426	578
Total	154,635	135,805	290,440
Net	48,229	(18,771)	29,458

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

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	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
	124,345	65,386	189,731
Non financial assets			
Property, plant and equipment	-	12,463	12,463
Intangible assets	-	2,024	2,024
Other assets	3,182	569	3,751
	3,182	15,056	18,238
Total	127,527	80,442	207,969
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
Subordinate loans	-	3,707	3,707
Other liabilities	808	32	840
Repurchased agreement	1,701	-	1,701
	75,767	109,820	185,587
Non financial liabilities			
Deferred grants	78	24	102
Tax payable	279	-	279
Deferred tax liabilities	-	105	105
	357	129	486
Total	76,124	109,949	186,073
Net	51,403	(29,507)	21,896

30. RELATED PARTY DISCLOSURES

The Bank is controlled by TenGer Financial Group LLC (formerly known as XAC-GE LLC) (incorporated in Mongolia). 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 MNT'000	2008 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
	525,669	620,416
(b) Loans to key management personnel	459,480	432,523
Repayable		
- within one year	73,576	89,420
- one year to five years	60,662	147,461
- over five years	325,242	195,642
	459,480	432,523
The loans to Bank's employees bear interest rates ranging from 0% to 12% (2008 : 5% to 12%) per annum.		
	2009 MNT'000	2008 MNT'000
(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
	15,645,909	17,097,233
(d) Loan interest paid to shareholders of TenGer Financial Group LLC	2,726,818	1,515,618
(e) Deposits from corporate shareholders	1,277,323	8,236,264
(f) Due to holding company		
- Current account	1,383	130
- Demand deposit	2,559,621	514,454
- Time deposit	-	752,947
	2,561,004	1,267,531
(g) Security fees paid to fellow Subsidiary Company		
- XacSecurity LLC	596,240	530,610
(h) Deposits from fellow Subsidiary Companies		
- XacSecurity LLC	17,074	15,670
- XacLeasing LLC	986,901	9,809
- Horus Nomadic Solutions LLC	28,494	47,808
	1,032,469	73,287

30. RELATED PARTY DISCLOSURES (CONTD.)

(i) Deposit interest paid to holding and fellow Subsidiary Companies		
- 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
	224,991	191,591
(j) Loan interest paid to shareholders of		
- TenGer Financial Group LLC	942,489	761,433
(k) Loan to fellow subsidiary companies		
- XacLeasing LLC	75,161	42,204
- XacSecurity LLC	-	369
	75,161	42,573
(l) Comission income from fellow subsidiary companies		
- XacLeasing LLC	2,135	6,265
(m) Conract free 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	-
	913,764	782,370

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	1,786,555	2,143,972

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
	25,532	1,683,040

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 AND SUBSEQUENT 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.

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 5% and risk weighted capital ratio of at least 10%, 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
Tier I capital		
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
Tier II capital		
Subordinated loans	8,813,10	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 MNT'000		2008 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	211,562,754	165,317,931

* Held for trading equities represents investments in TenGer Financial Group LLC (formerly known as XAC-GE LLC), the Bank's holding company in year 2007.

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:

	Level 1	Level 2	Level 3	Total
At 31 December 2009	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets				
Financial investments - 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: on.

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

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

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

	Note	Carrying value 2009 MNT'000	Fiar value 2009 MNT'000	Carrying value 2008 MNT'000	Fiar 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	100,795,074	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

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;
- (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.

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.

35. RISK MANAGEMENT (CONTD.)

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.

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 collateral 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	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
Financial investments - held for trading	13	195,248,857	149,639,706
Loans and advances to customers	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

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 Gross maximum exposure		2008 Gross maximum exposure	
	Amount MNT'000	%	Amount 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%	1,366,780	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.

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

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.

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:

Credit Rating	Grade Description
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.

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.

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 MNT '000	Neither past due nor impaired						Total MNT '000
		Excellent MNT '000	Good MNT '000	Satisfactory MNT '000	Substandard MNT '000	Not Rated MNT '000	Past due or indi- vidually impaired 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	1,369,897	33,545,404
Consumer Loans		5,772,680	11,240,518	26,716,456	27,384	1,038,892	1,038,892	44,795,930
SME Loans		6,716,634	12,589,679	39,475,970	26,110	5,014,376	5,014,376	63,822,769
Agricultural Loans		10,492	39,769	381,677	453	225,051	225,051	657,442
Wholesale Loans		8,136	-	1,300,060	-	15,778	15,778	1,323,974
Mortgage Loans		37,696	3,912,206	37,184,085	696,183	739,512	739,512	42,569,682
Apartment Pledged Loans		306,825	393,411	785,521	-	198,689	198,689	1,684,446
Deposit Backed Loans		5,247,060	-	-	-	817	817	5,247,877
Employee Loans		620,478	4,130,283	-	-	9,481	9,481	4,760,242
Financial investments - available-for-sale	13	25,223,807	32,888,952	130,931,889	750,625	8,612,493	8,612,493	198,407,766
Financial investments - held-to-maturity	12	-	-	2,966,750	-	-	-	-
Financial investments - held-to-maturity	12	-	-	-	-	-	-	-
Total		34,465,127	34,465,127	151,079,226	14,409,414	8,612,493	8,612,493	301,653,695

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Credit quality per class of financial assets

At 31 December 2008	Neither past due nor impaired							Total MNT'000
	Notes MNT'000	Excellent MNT'000	Good MNT'000	Satisfactory MNT'000	Substandard MNT'000	Not Rated MNT'000	Past due or individually impaired MNT'000	
Cash and short term funds	11	-	-	-	-	7,488,261	-	7,488,261
Due from banks	12	-	-	-	-	24,287,029	-	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
Financial investments - available-for-sale	14	37,102,214	4,361,084	103,054,220	991,861	-	5,818,746	151,328,125
Financial investments - held-to-maturity	13	-	-	-	-	224,300	-	224,300
Financial investments - held-to-maturity	13	-	-	-	-	7,748,088	-	7,748,088
Total		37,102,214	4,361,084	103,054,220	991,861	39,747,678	5,818,746	191,075,803

35. RISK MANAGEMENT (CONTD.)

35.2 Credit risk (Contd.)

Credit quality per class of financial assets (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
	894,457	320,636	558,288	2,007,012	3,780,393

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

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	120,935	508,175
Consumer Loans	121,987	82,998	26,535	56,131	287,651
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	-	37,432	90,284
Apartment Pledged Loans	26,648	42,795	10,367	-	79,810
Employee Loans	4,264	-	-	-	4,264
	495,358	467,991	214,373	376,568	1,554,290

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 MNT61 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	31,095
Mortgage Loans	1,685,267	31,480
Wholesale Loans	70,032	14,601
	10,396,914	93,096

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.

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 2008 and 31 December 2007 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.)

35.2 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 un- discounted 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	-	-	329,293	248,453	161,466	442	1,757,298
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	11,299,732	134,871,140
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

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	-	822,965	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.

35.4 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.

35. RISK MANAGEMENT (CONTD.)

35.4 Market risk (Contd.)

Interest rate risk (Contd.)

	Increase/(Decrease) in basis points		2009	2008
			Sensitivity of net interest income MNT'000	Sensitivity of net interest income MNT'000
Floating rate financial	50/(100)	50/(50)	269/ (134)	213/ (213)
assets and liabilities	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.

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, 2008 and December 31, 2007. 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 Currency	Foreign Currencies						Total
		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
	171,252	120,507	4,569	1	2,226	220	43	298,818
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
	158,751	125,407	4,561	-	1,008	3	42	289,862
Net position	12,501	(4,900)	(82)	1	1,218	217	1	8,956

Concentrations of financial assets and financial liabilities	Local Currency	Foreign Currencies						Total
		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	66,927	2,323	-	-	-	-	100,795
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	Effect on equity
At 31 December 2009	%	MNT '000	MNT '000
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.

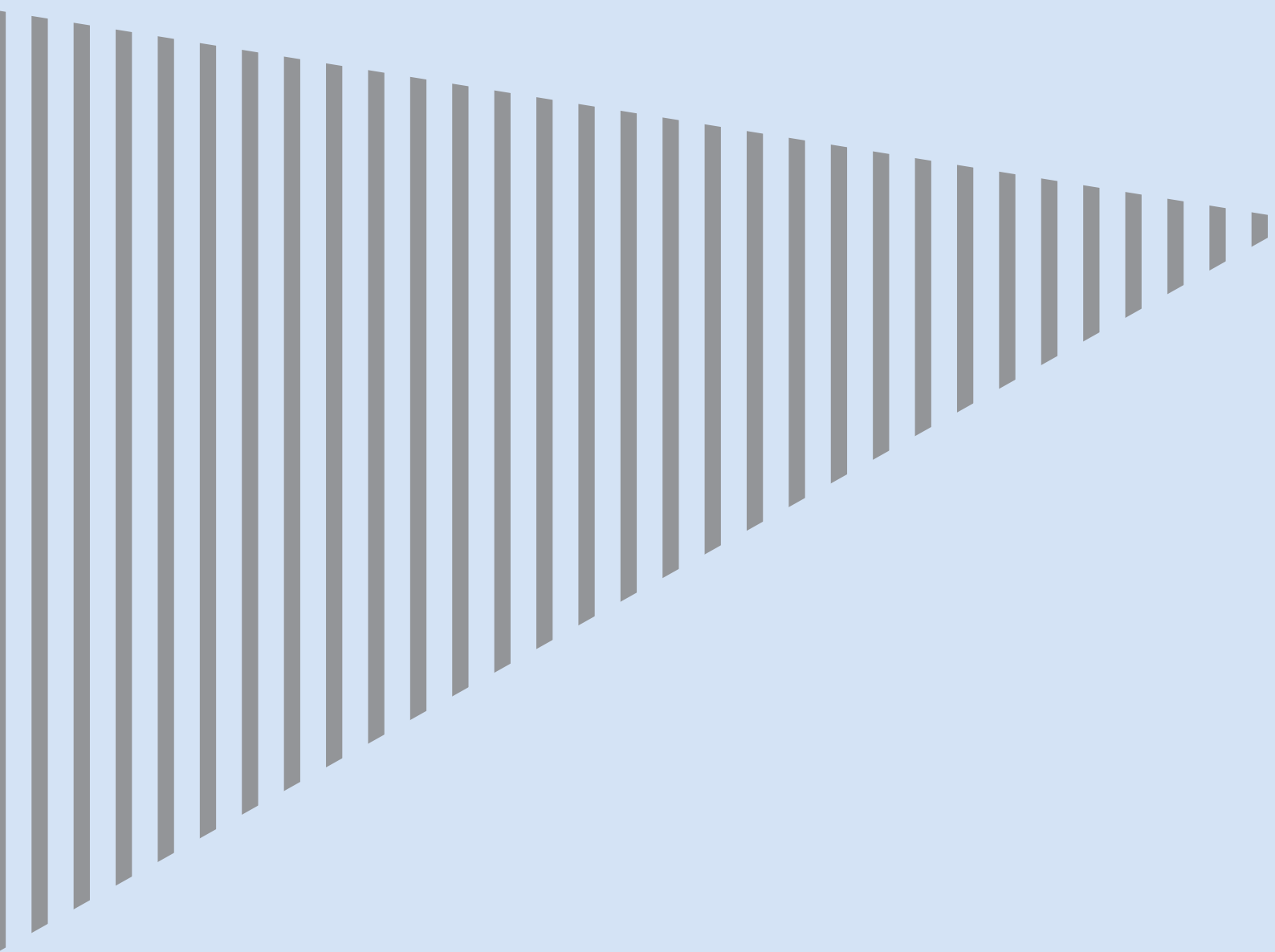
36. MONGOLIAN TRANSLATION

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.

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PARTNERSHIP



FOR PROGRESS



►► Mrs. A. Tsermaa and Mr. D. Dashtseren family's struggles to overcome their financial access problems, protect their own intellectual property, promote staff loyalty and assist the poorer segments of Mongolian society are noble and noteworthy. ■

HOLDING COMPANY SHAREHOLDERS



www.ebrd.com

Number of shares: 917,556
Ownership: 10.02%

Founded in 1991, the European Bank for Reconstruction and Development (EBRD) uses the tools of investment to help build market economies and democracies in 27 countries from Central Europe to Central Asia. The EBRD is owned by 61 countries and two intergovernmental institutions. Despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners. The EBRD provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies to support privatization, restructuring state-owned firms and improvement of municipal services.



www.eit.mn

Number of shares: 2,302,659
Ownership: 25.1%

EIT (Employee Investment Trust) Capital Management is a special purpose company, which is jointly owned by co-workers and capitalized with the shares that they currently hold in the Bank and the Group. Through this process co-workers set up a truly sustainable mechanism to align the Group's interest with those of its employees and at the same time ensure a proper participation of these shareholders in the strategy of the organization while ensuring protection of their legal rights as minority stakeholders. This entity has voting and transfer rights and allows the Group to deal with 1 shareholder, alleviating the need to work separately with each individual shareholder.



www.ifc.org

Number of shares: 1,243,624
Ownership: 13.55%

The International Finance Corporation (IFC) is a member of the World Bank Group. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. The goal is to improve lives, especially for the people who most need the benefits of growth. IFC invests in enterprises majority-owned by the private sector throughout most developing countries in the world.



www.mercycorps.org

Number of shares: 1,254,180
Ownership: 13.67%

Mercy Corps provides international humanitarian aid and development charitable organization that focuses on emergency relief services, economic development and civil society, founded in 1979 as Save the Refugees Fund. Mercy Corps works amid disasters, conflicts, chronic poverty and instability to unleash the potential of people who can win against nearly impossible odds. Since 1979, Mercy Corps has provided \$1.3 billion in assistance to people in 100 nations. Supported by headquarters offices in North America and Europe, the agency's unified global programs employ 3,400 staff worldwide and reach nearly 14.4 million people in more than 35 countries.



www.forum.mn

Number of shares: 264,141
Ownership: 2.87%

Open Society Forum (OSF) is a non-for-profit public benefit foundation established pursuant to the Non-Governmental Organization Law of Mongolia, as a successor to the Mongolian Foundation for Open Society (Soros Foundation). The OSF is providing a venue of for public engagement in the policy formulation and implementation monitoring processes, broad public access to information resources about policies, laws, and regulations, physical and virtual space for high-quality research and analysis in the fields of economic growth, social development and democratic governance policy.



The Rotary Club of Ulaanbaatar

www.rotarymongolia.org

Number of shares: 150,153
Ownership: 1.63%

The Rotary Club of Ulaanbaatar was the first Rotary Club in Mongolia. The Club was admitted to Rotary on January 10, 1996, and chartered on May 13, 1996. Rotary is short for Rotary International – a worldwide association of local clubs for men and women in business or the professions who provide humanitarian service to the community at local, national and international level, encourage high ethical standards in all vocations, work for goodwill and peace in the world. Rotary was founded in 1905 and now has over 1.3 million members in more than 30,000 clubs in 185 countries and geographical regions.



www.triodos.com

Number of shares: 685,993
Ownership: 7.47%

Triodos-Doen Foundation, founded by Triodos Bank and DOEN Foundation in 1994, aims to develop microfinance into a full-fledged and integral part of the financial sector in developing countries. The creation of an inclusive financial sector, a sector where the majority of people have access to financial services, will provide a sustainable basis for a balanced social-economic development. In its vision microfinance institutions distinguish themselves from other financial institutions through a specific identity and sustainable profile which includes not only a focus on the profitability of the institution but also on the social aspects, which are an almost inherent part of their mission, and on the potential impact of their business and credit operations on the environment and natural living conditions.



www.triodos.nl

Number of shares: 685,996
Ownership: 7.47%

Triodos Fair Share Fund, established in 2002 in the Netherlands, is one of the first and very few social-ethical funds worldwide that offers the opportunity to invest in microfinance institutions to the general public. The fund initially concentrates on the private investors market in the Netherlands. Triodos Fair Share Fund is one of the three microfinance funds managed by Triodos Investment Management B.V., part of the Triodos Bank N.V., and invests in microfinance institutions in developing countries, Central Asia and Eastern Europe. The objective of the fund is to give low-income people in these countries access to financial services by contributing to a sustainable inclusive financial sector.



www.blueorchard.org

Number of shares: 1,528,173
Ownership: 16.65%

BlueOrchard Private Equity Fund (PEF), specialising in the equity investment and management in microfinance institutions, acting as an investment vehicle targeting microfinance institutions at a local, regional or international levels.

INTERNATIONAL INVESTORS



www.fmo.nl

MNT11,709,600,000

The Netherlands Development Finance Company, development bank, founded by the Dutch government and business community in 1970 as the successor of the Netherlands Overseas Financing Association (NOF). At present, FMO is firmly rooted in some 40 or more developing countries and countries in transition and provides financing in the form of equity investments and loans to enterprises and financial institutions.

7 Year Term Loan



BlueOrchard Finance s.a.
Microfinance Investment Advisers

www.blueorchard.org

USD6,500,000

BlueOrchard Finance, a Swiss company, specialising in the management of microfinance investment products, assists banks and financial intermediaries who wish to invest in the microfinance industry by offering a comprehensive package of services. Acting as a fund of funds, it invests in a broad array of Apex debt investment vehicles targeting microfinance institutions at a local, regional or international level.

5 Year Term Loan



BlueOrchard Finance s.a.

www.morganstanley.com

MNT5,825,000,000

Founded in 1935, Morgan Stanley (NYSE: MS) is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. The Firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 600 offices in 33 countries.

5 Year Term Loan



www.kfw.de

USD4,118,738

Kreditanstalt fuer Wiederaufbau (KfW) Bankengruppe, established in 1948, is a state-owned development bank designed to assist developing countries and the German economy. It provides funds for housing, infrastructure, environmental protection and preservation, and venture capital. KfW is involved in funding telecommunications, transportation, energy infrastructure, and industrial projects around the world.

10 Year Term Loan



www.deutsche-bank.de

DB-Global Commercial Microfinance Consortium

MNT4,672,000,000
USD125,000

Deutsche Bank Aktiengesellschaft provides investment banking products and services. It was founded in 1870 and is a leading global investment bank with a strong and profitable private clients franchise. The bank is a leader in Germany and Europe, and growing in North America, Asia and key emerging markets with 1,889 facilities worldwide.

5 Year Term Loan



www.credit-suisse.com

USD500,000

Credit Suisse Group, founded in 1856, headquartered in Zurich, operates as a financial services company worldwide. It provides companies, institutional clients and high-net-worth private clients worldwide, as well as retail clients in Switzerland, with advisory services, comprehensive solutions, and innovative products in over 50 countries.

2 Year Term Loan



www.calvertfoundation.org

USD1,200,000

Calvert Foundation, a nonprofit organization, is an industry leader in community investment. It was launched in 1995 as a separate organization with the support of the Ford, MacArthur and Mott Foundations. Its goal is to maximize the flow of capital to disadvantaged communities in order to foster a more equitable and sustainable society.

5 Year Term Loan



www.symbiotics.ch

USD2,000,000

Symbiotics SA, Information, Consulting & Services' mission is to serve the microfinance industry through investment intermediation services. The company provides innovative business services to investors and practitioners of micro- and small enterprise development.

5 Year Term Loan



www.oikocredit.org

MNT 3,063,955,760
USD 1,500,000
EUR 600,000

Oikocredit is a unique cooperative society, which encourages investors to invest their funds in a socially responsible manner. It is one of the few ethical investment funds, which finances development projects in the South benefiting disadvantaged and marginalised people. Its loans are channelled through a network of Regional Offices spread over Latin America, Asia, Africa, Central and Eastern Europe and managed by local professionals. Today more than 75% of our outstanding capital goes to financial intermediaries, the MFIs.

3-4 Year Term Loan



www.blueorchard.org

USD2,300,000

The Dexia Micro-Credit Fund, created in 1998 by Dexia Banque Internationale, is the first commercial investment fund designed to refinance microfinance institutions specialised in financial services to small companies in emerging markets. It is active in 27 developing countries in Latin America, Asia and Eastern Europe, and finances 78 institutions, which serve well over one million micro-entrepreneurs. To manage its microfinance portfolio, Dexia Asset Management relies on BlueOrchard Finance SA, which is specialised in managing assets of this type.

2-3 Year Term Loan



www.oxfamnovib.nl

MNT584,000,000
USD3,000,000

Oxfam Novib, The Nederlandse Organisatie voor Internationale Bijstand, was set up in 1956 and joined Oxfam International in 1994, a confederation of 13 organizations working together with over 3,000 partners in more than 100 countries to find lasting solutions to poverty and injustice. www.triplejump.eu Triple Jump, fund management company, founded in 2006 as a result of management team spin off from Oxfam Novib, aims to provide financial services for MFIs in all phases of their development. It's mission is to contribute to the sustainable development of emerging market economies by facilitating investment in micro and small enterprises.

2-3 Year Term Loan



www.microvestfund.com

USD1,500,000

MicroVest was created as a capital-mobilizing intermediary for microfinance institutions. It seeks partners to help make financial markets work for poor entrepreneurs of the world by linking capital markets and MFIs. MicroVest I, LP makes debt and equity investments in promising, existing MFIs across broad geographic areas.

5 Year Term Loan



www.shorecap.net

USD 500,000

ShoreCap International Ltd. is an international private equity company seeking to invest in small business banks and regulated MFIs in developing and transitional economies throughout Africa, Asia and parts of Eastern Europe. It was launched by ShoreBank Corporation, America's first and leading community development and environmental banking corporation.

3 Year Term Loan



www.ebrd.com

USD5,000,000

The European Bank for Reconstruction and Development (EBRD) uses the tools of investment to help build market economies and democracies in 27 transition countries. It provides project financing for banks, industries and businesses. It also works with publicly owned companies to support privatization, restructuring state-owned firms and improvement of municipal services.

4 Year Term Loan



www.ifc.org

USD5,400,000

The International Finance Corporation (IFC) is a member of the World Bank Group. It fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

5 Year Term Loan



www.triodos.com

MNT 3,198,985,000
USD3,000,000

Triodos-Doen Foundation, founded by Triodos Bank and DOEN Foundation in 1994, aims to develop microfinance into a full-fledged and integral part of the inclusive financial sector in developing countries, where the majority of people will have access to financial services, and provide a sustainable basis for a balanced socio-economic development.

4 Year Term Loan

SUSTAINABLE DEVELOPMENT PARTNERS



Microfinance Development Fund (MDF), World Bank
Aims to expand the outreach of microfinance services in rural areas. The Bank disburses MDF's loan through its branches in Darhan Uul, Orhon, Bulgan, Zavhan, Govi Altay, Dornogovi and Suhbaatar aymags.

The Bank has disbursed, through its Darhan-Uul, Orhon, Zavhan, Khentiy, Dundgovi, and Suhbaatar aymag center branches, total loans of MNT1,828.1 million to 900 microentrepreneurs, 32 herders and 238 individuals living under the poverty-line.

Started in November 2002



Rural Poverty Alleviation Program (RPAP), IFAD
Aims to reduce the poverty of poor rural people and households. The Bank cooperates with RPAP in Arhangay, Huvsgul, Bulgan and Hentiy aymags. The Bank disburses low-interest loans to low-income households, herders and poor households in soums, as well as to women groups jointly with the Mongolian Women Federation.

The Bank disbursed low-interest, reduced-collateral loans of MNT185.1 million of amount up to MNT1 million to 168 low-income poor women groups, and disbursed a total amount of MNT1,598.6 million loans to 1531 persons in 2009.

Started in June 2003



Employment Generation Support Fund (EGSF), Ministry of Social Welfare and Labor
XacBank disburses the Employment creation loan of Employment Generation Support Fund by Ministry of Social Welfare and Labor to individuals and entrepreneurs who want to create new jobs or retain existing jobs, in all aymags and districts.

In 2009, total loans of MNT941.6 million to 136 unemployed individuals, 241 organizations, informal sector workers and herders, out of which 12 are disabled and 118 were ger-district area residents.

Started in May 2002



Research study on "influence of microloans on the poverty reduction"

Jointly with the EBRD and Mongolian Women Federation a research study has been conducted since 2007. Under this project women groups in Arhangai, Bulgan, Hentiy and Huvsgul aymags received a low-interest loans without collateral. Group members are required to have group saving or common asset.

Total loans of MNT163.5 million were disbursed to 321 low-income women during 2008

Started in 2007



Rural Agribusiness Support Program (RASP), Mercy Corps Mongolia

The project's aim is to help expanding agribusinesses in central and southern Mongolia. The program is implemented in Dornogovi, Umnogovi, Dundgovi, Bayanhongor, Arhangay, Zavhan, Suhbaatar and Hovd aymags.

In 2009, Bank disbursed MNT660.0 million to 252 herders and agribusinesses.

Started in March 2004



Enterprise Mongolia Project, UNDP

Attempts to support entrepreneurial initiatives aimed at stimulating local economic development by creating national and global brand products. The project loans disbursed in Hovd, Zavhan, Huvsgul, Hentiy, Selenge, Ovorkhangay, Bayan Ulgii aymags, and Han-Uul and Suhbaatar districts.

Total loans of MNT110 million were disbursed to 18 business clients during 2008.

Started in May 2006



Ger Initiative, CHF International

The project seeks to improve the quality of life for low and medium-income families in the peri-urban areas through supporting business development services and increasing development opportunities. The project is implemented in Ulaanbaatar city, Darhan-Uul, Orhon, Dornod, Selenge, Bayan Ulgii, Tuv and Bulgan aymags.

In 2009, the Bank has disbursed MNT235.7 million to 181 borrowers.

Started in June 2003



Support for Micro Business, ADRA, Mongolia

Project aims at supporting low-income and socially vulnerable ger-district residents in the capital city who have limited access to financial services to start micro businesses.

Total loans of MNT90.7 million were disbursed to 113 business clients during 2009.

Started in August 2007



"Self Help Groups", ADRA, Mongolia

Under the project the Self help groups voluntarily formed by the low-income rural micro businesses and those who are interested in micro business development will have financial and non-financial services.

Group loans will be disbursed in Selenge, Zavhan, Huvsgul and Bayanhongor aymags through bank branches or mobile banking services as well as through Franchised Saving and Credit Cooperatives.

Started in July 2008



Two Step Loan Project (TSL), JBIC

Two Step Loan Project (TSL) by Japan Bank for International Cooperation, aims to promote development of small and medium-sized businesses by introducing environmentally friendly technologies. TSL implemented in all aymags and capital districts of Mongolia.

Started in 2007



SME Support Fund Project, Government of Mongolia

SME support fund project supports small and medium-sized businesses to access low-interest rate loans to promote purchase of productive equipment and required working capital.

Started in 2006



Regional Economic Development Project, GTZ

Regional Economic Development Project of GTZ aims to support regional economic processes, including institutional framework conditions. The project is implemented in Darhan, Orhon and Bulgan aymags.

Total loans of MNT800 million were disbursed to 9 business clients during 2009.

Started in May 2007



Credit Lines for Veterinary Businesses, VET NET

This project enables qualified veterinarians and veterinary technicians in the designated aymags, soum and bag-based veterinary businesses to obtain subsequent loans from XacBank to buy veterinary drugs and equipment for use in their practices.

Total loans of MNT11.9 million were disbursed to 10 livestock veterinarians during 2009.

Started in January 2007



Index Based Livestock Insurance project, World Bank

The Index-based Livestock Insurance Project for Mongolia aims to ascertain the viability of index-based livestock insurance in Mongolia to reduce the impact of livestock mortality for herders. Currently, herders in Uvs, Bayanhongor and Hentiy aymags are covered by this insurance.

Total loans of MNT25.4 million were disbursed to 23 herders during 2009.

Started in March 2006



Loan facilitation program to support agribusinesses

Jointly with the Ministry of Food, Agriculture and Enlightenment to disburse loans with discounted interest rate to the agribusinesses. The Government provides 50 per cent interest rate discount. In 2008, total of MNT 194 mln has been disbursed to nine agribusinesses.

In 2009, total of MNT222.3 million has been disbursed to 11 agribusinesses.

Started in 2008



"Mongolian dream" Project

The project's aim is to house the low and middle income young families, and contribute to the reduction of air and soil pollution in ger districts. Since 2007 mortgage loans with discount rate provided to borrowers who lives in the micro district "Rising Sun", constructed under the project.

Started in 2007



Habitat for humanity mongolia affordable housing programme

XacBank in partnership with Habitat for Humanity Mongolia, a charitable organisation, will help 300 low-income families to have solid and affordable housing in Ulaanbaatar, Darkhan, Eridenet and Arvaikheer. HFH Mongolia's role is to work with the families in building or renovating their houses while XacBank will provide financing and loan servicing.

Started in 2008













XacBank together with MNCII and Petrovis LLC, are implementing

"Live is Forever Beautiful - Organic Mongolia" program in the scope of the Together Against Poverty Foundation and under the motto "Natural and organic foods - Source of healthiness" between March 15, 2009 and December 31, 2009. Within the scope of this program, the Bank disbursed total loans of 169.0 million to 49 micro and small agribusinesses with the aim to increase the volume, quality, standards and market share of domestic agricultural products.

Started in 2009

CORRESPONDENT BANKS

Country: Currency	SWIFT code	Account number
 <p>NATIONAL BANK FINANCIAL</p>		
<p>Canada: USD National Bank of Canada, Montreal</p>	BNDCCAMM INT	10246824000200101
 <p>中国农业银行 AGRICULTURAL BANK OF CHINA</p>		
<p>China: CNY, USD Agricultural Bank of China Inner Mongolia Branch, Erlian City</p>	ABOCCNBJ050	05710101040022045 (CNY) 05710114012000055 (USD)
 <p>HypoVereinsbank</p>		
<p>Germany: EUR Bayerische Hypo- und Vereinsbank AG, Munich</p>	HYVE DE MM	69 109 012 (IBAN: DE13 7002 0270 0069 109012)
 <p>Postbank</p>		
<p>Deutsche Postbank Friedrich-Ebert-Allee 114-126, 53113 Bonn, Germany</p>	PBNKDEFF	755772 607
 <p>SMBC SUMITOMO MITSUI BANKING CORPORATION</p>		
<p>Japan: JPY, USD Sumitomo Mitsui Banking Corporation, Tokyo</p>	SMBC JP JT	4347 (JPY) 3625 (USD)
 <p>KB</p>		
<p>Korea: USD Kookmin Bank, Seoul</p>	CZNB KR SE	772-8-USD-01-3
 <p>SBERBANK</p>		
<p>Russia: EUR, GBP, RUB, USD Sberbank (Savings Bank of the Russian Federation), Moscow</p>	SABR RU MM	30111978700000000536 (EUR) 30111826700000000536 (GBP) 30231810900000000536 (RUB) 30111840100000000536 (USD)
 <p>HSBC</p>		
<p>United States: USD HSBC Bank USA N.A., New York</p>	MRMD US 33	CHIPS ABA: 0108 Fed Wire Routing Code: 021001088 000-144860
 <p>Deutsche Bank</p>		
<p>Deutsche Bank Trust Co. Americas 60 Wall St.-28th Fl. New York, NY 10005, USA</p>	BKTRUS 33	04434754
 <p>WACHOVIA</p>		
<p>United States: USD Wachovia Bank 60 Wall St.-28th Fl. New York, NY 10005, USA</p>	PNBPUS3NDNYC	2000191006555

MAIN AWARDS



Social Performance Award - Silver Category for 2008, the World Bank led Consultative Group to Assist the Poor



Top Ten Business Entity for 2009 Mongolian National Chamber of Commerce and Industry Government of Mongolia



Excellency in Green Development Award for 2009, Mongolian National Chamber of Commerce and Industry



Top-5 Banks for 2007, 2009 Mongolian National Chamber of Commerce and Industry, Government of Mongolia



Financial Transparency Award for 2004, 2005, 2006 the World Bank led Consultative Group to Assist the Poor



Organization of Management Excellence for 2007, Mongolian Management Association



Business Excellence Award for 2008 Mongolian National Chamber of Commerce and Industry



Best Corporate Governance for 2006, Mongolian National Chamber of Commerce and Industry, Government of Mongolia



Best Corporate Social Responsibility for 2006, 2007, 2008 Mongolian National Chamber of Commerce and Industry, Government of Mongolia

International Ratings



Moody's Investors Service

Moody's Investors Service (www.moodys.com), a global credit rating agency, which performs international financial research and risk analysis on commercial and government entities.

	2009	2008
Long and short term foreign currency deposit rating	B2	B2
Long and short term local currency deposit rating	Ba3	Ba1
Long and short term foreign currency issuer rating	Ba3	D
Long and short term local currency issuer rating	Ba3	Ba2
Bank financial strength rating (BFSR)	D-	Ba1

All the categories have "Stable" Outlook.



Fitch Ratings (www.fitchratings.com) is a leading global rating agency committed to providing the world's credit markets with independent, timely and prospective credit opinions.

	2009	2008
Foreign Currency: Long-Term IDR rating	B Negative	B+Stable
Foreign Currency: Short-Term IDR rating	B	B
Local Currency: Long-Term IDR rating	B Negative	B+Stable
Sovereign Risk: Foreign Long-Term IDR rating	B Stable	B+Stable
Sovereign Risk: Local Long-Term IDR rating	B Stable	B+Stable

The Outlook for all ratings is "Stable".



Planet Rating (www.planetrating.com) is a specialized microfinance rating agency, offering evaluation and rating services to microfinance institutions, using the GIRAFE methodology

	2006	2004
Governance	A	A
Information	B	B
Risk management	A	B
Activities	A	A
Financing and Liquidity	A	A
Efficiency and Profitability	A	B
Rating	A	A-

Banquiers Sans Frontières



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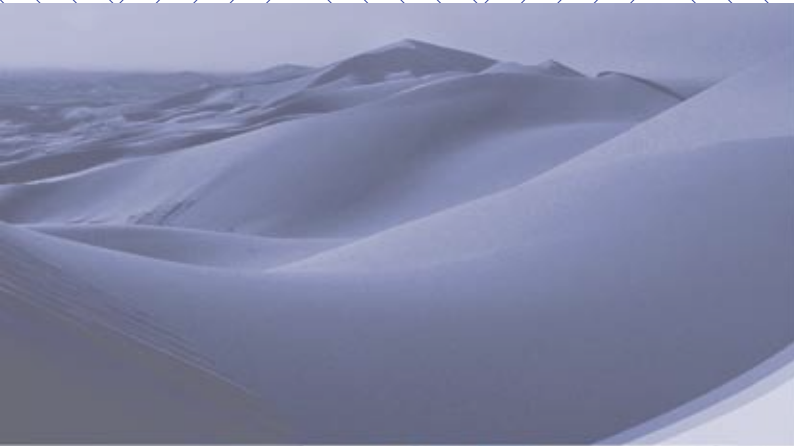


Horus Nomadic Solutions

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