

Chairman's Message

I am pleased to present to you the 2008 annual report of the Financial Regulatory Commission of Mongolia. 2008 was a challenging year for all of us. A negative economic environment at the beginning of the year turned into a serious worldwide financial crisis affecting many countries around the world. In 2008, our Commission worked primarily to improve the legal environment of the financial industry, to develop capacity building of the market participators, and to enhance supervision on the activities in the market. I would like to provide a report of our work over this period in order to evaluate what we have achieved, as well as outline the plan for the future. While presenting our annual report, I would like to extend my gratitude to all the institutions that we worked closely with, and to everyone who helped us improve our Commission with their recommendations and support.

*D. Bayarsaikhan
Chairman*

2008 ANNUAL REPORT OF THE FINANCIAL REGULATORY COMMISSION OF MONGOLIA

OVERVIEW

The Financial Regulatory Commission of Mongolia has fulfilled its duty and authority in accordance with the relevant laws and regulations, while considering the Commission's future plan with specific steps. The Commission announced 2008 as the year for "Micro Finance Development", within this framework, the FRC executed tasks with a special plan.

Highlighting the works done by the Commission within the scope of ensuring stability of the financial market, the FRC drafted and enacted 16 regulations, forms and guidelines on securities market. It also organized a fair for financial market promotion and various seminars to improve public's knowledge about finance. In the insurance industry, as the life insurance system has been introduced, the commission enacted a major regulation based on the two general insurance laws, along with over 20 insurance related regulations and guidelines. In capacity building of professional participations, a total of 38 programs were conducted which involved approximately 2000 people. In the microfinance sector, in terms of regulation and law, the Commission drafted various regulations and amendments, including amendments on the branch law and submitted to the Ministry of Finance, 9 regulations, rules and manuals renewed and issued, and drafted a separate law on activities of SCC and submitted to the Parliament. In capacity building, the Commission conducted various foreign and domestic training programs, seminars and forums, involving staff members of the market intermediaries. The Commission carried out various inspections on all sectors and delisted incapable entities.

The Office of the Commission comprises of six units, namely Securities Market Department, Insurance Market Department, Microfinance Department, Administration Department, Legal Division and International Cooperation Division.

The Commission has newly established the Department of Financial Reporting, Auditing and Valuation, and Assessment Quality Control, which was approved by International and domestic financial institutions. This department has responsibility for examining the quality of financial statements of regulated entities, the accuracy of publicly disseminated information, assessment of the quality of audit and valuation performance, and achievement of compliance with relevant legislation.

Building of the Financial Education and Information Center under the FRC was promoted by the Government and Parliament which approved 2.5 billion MNT in the state budget investment plan for the building of the center. However, the building process has yet to begin due to some setbacks.

In 2008, the Commission placed its website and e-mail server on the 2 new servers "Dell Power Edge-2900" provided by the Asian Development Bank as a technical support. As a result, the external and internal networks have been improved.

The Commission has been closely co-operating with the IFIs, other donors and similar foreign regulators with an aim to improve non-bank financial sector regulation, such as projects and workshops with the IMF, World Bank, EBRD and ADB and seminars and conferences by the JICE, GTZ, USAID, ADB as well as number of Memorandums of Understanding;

- with the Mongolian Cooperatives Training Centre and MOCCU on the implementation of SCCs' capacity building project to be sponsored by the Canadian Cooperatives Associations.
- with XacBank on delivering franchise services to the SCCs.
- with the Bank of Mongolia on the use of Credit Information Bureau data.
- Memorandum of Co-operation with the National Statistics Committee on re-organization of data relating to the national financial sector.
- On use of legal entities' database' with the General Tax Department on mutual use of the database.

By law, the Commission exercises its power through its meetings. During the reporting year, the Commission convened 19 meetings, which discussed and made decisions on 320 urgent matters, 295 resolutions, and 7 notifications. Of the resolutions, 45 related to industries' legal frameworks, 178 related to market regulation, 37 related to protecting interests of shareholders and citizens, and 34 related to miscellaneous matters. On average, 17 matters were discussed at each of the Commission's meetings.

The Commission also received a total of 4321 official letters and facsimiles along with 451 complaints from the public. On average, 32 letters were received a day.

ONE. THE SCOPE OF ENSURING STABILITY OF THE FINANCIAL MARKET

1. Securities market

Throughout 2008, the FRC aspired to develop the legal framework of the capital market, to strengthen law enforcement, to activate the issuing of securities, to protect the interests of shareholders, to enhance the financial education of securities market participants, and to improve the supervision of market intermediary activities.

A. Fortifying Public Confidence in the Financial Market

Since its establishment, the FRC has signified the importance of reinforcing legal regulations in line with the ongoing development of the securities market. Hence, we have made amendments to sector legislations, drafted a number of laws, and submitted these to the relevant authorities, despite the pending parliamentary approval.

Many nations worldwide were hit by the financial turmoil, and its repercussions have led us to pursue new challenges in regulating the financial sector. Thus, in line with new factors, the FRC, in cooperation with the staff office, has drafted laws, law amendments and new principles on the Securities market, Investment funds, Companies, Mortgages, and Mortgage-backed securities. Some of these were submitted to the Parliament for approval.

A major challenge for a robust economic growth is the development of the capital market, and economists agree that it is essential to have a proper governmental policy to achieve it. Hence, over past years, the FRC has drafted the "Program for Development of the Capital

Market for 2009-2012”, along with its action plan, which involves having in place policy guidelines. The documents were reviewed and supported by an extraordinary meeting of the Commission, and were examined in detail given the guidance by the commissioners. Proper amendments have been made, and are now ready for submission to the Parliament.

In order to make accounting for intermediaries and financial statements to align with the international accounting standards, the FRC revised and drafted 16 regulations, forms and guidelines, namely “Regulation on licensing and granting of certificates to intermediaries to be engaged in the securities market”, “Activities of broker-dealer companies”, “Off-site supervision on securities issuers”, “Registering disseminated securities”, and “Guidelines on accounting of securities market participants and securities companies.”

In the second half of 2008, the tendency among business entities to attract investment funds and expand production and operations was likely to be spread out, and this is relevant to the progress of economic indicators. This is due to a certain amount of cash savings are in the hands of citizens and enterprises. This has been supported by the FRC’s policies. To raise participation in economic growth, the Commission has granted licenses to launch IPOs to 6 companies including “Hermes Center”, “Khukh Gan”, “Monad”, “Remicon”, “Monfresh Juice”, and “Anod Bank” JSCs. Companies such as “Zoos Bank” and “BD Sec”, JSCs were licensed to issue and trade additional shares, and 500 million shares were listed at a value of 85.5 billion MNT. Moreover, 226 thousand shares of the newly established “Mongolian railroad”, a state owned LLC (valued at 100 tugrugs), bonds valued at 150 million USD to be issued on the international securities market from the Trade and Development Bank, LLC, and subordinated debt worth 25 million USD, were registered by the FRC.

As the market activity increases, the interest of intermediaries grows, and a growing number of requests to obtain licenses were delivered. The Commission has monitored and made decisions according to the applicable regulations and guidelines. In the reporting year, licenses of 6 companies engaged in broker-dealer activities, and underwriting licenses of 2 companies, were revised. The FRC granted brokerage dealing and underwriting licenses to 6 companies, namely FCX, Nortonsec, Finance Link Group, Lifetime investment, London- Asia Capital, and OCB, LLCs; to 4 companies to conduct broker-dealer activities; and to 1 company to carry out consulting for broker-dealer and investment activities respectively.

The FRC provided administration to the Mongolian Stock Exchange and the Securities Clearing House and Central depository which play crucial roles in the securities market, through its representatives on their Board of directors.

Protecting the legal rights of the public is a key instrument to build and strengthen their trust in the financial market. To protect the rights and interests of citizens and shareholders, the Commission took part in 20 administrative cases in court to resolve 6 complaints due to approval of 37 resolutions issued by the FRC, in respect of citizens’ and shareholders’ protection, and demonstrated that its decisions were accurate.

During the privatization process, state-owned enterprises were re-organized into shareholding companies and were listed on the Stock exchange without any clear criteria. Most of the shareholding companies incurred losses, their property was devastated, and the companies closed down. Due to breaches of corporate governance procedures, and inconsistencies toward their shareholders, their shares are inactively traded at the stock exchange, even though they have not been delisted from the MSE securities list.

According to inspections of the activities of companies between 2006 and 2007, around 200 JSCs had been closed down for three years or more, and around 70 companies' investments were misused and are incapable of carrying out further operations. However, no one took any responsibility for that.

On one hand, this was an act of disregarding the rights and interests of thousands of minor shareholders of that company, and was a persistent and uncontrolled behavior of a small number of people owning a majority of the total shares. On the other hand, they are not aware of the value of the owned shares and the nature of blue and pink vouchers. Furthermore, the state supervision mechanism of private companies was abandoned, not regulated by any regulations, and there are loop holes in the Company law and unrealistic clauses which allow a quorum at a shareholders' meeting based on the voting shares of the participants in the total shares to violate the rights of the shareholders.

Delisting of entities that considered incapable of operating in the financial market is assumed to positively affect the further development of the market. Accordingly, from the end of March 2008, the Commission at the initial stage halted the securities trading of 165 JSCs. In March 2008, the FRC issued resolution No. 77 on "Measures on the companies of which their trading is halted" and imposed liability to submit its decision to convene a shareholders' meeting, recover its activity, and decide whether to liquidate its company along with its date of submission. Although shareholding companies make any decisions, the FRC is responsible for taking preemptive measures to protect the rights and interests of small investors.

In the reporting year, 12 companies listed at the MSE were removed from the securities list; 165 companies convened their shareholders meeting and requested the FRC to change their status to Limited Liability Company. Therefore, the Commission, based on inspections, has approved and delisted 975532 numbers of securities of 9.944 entities and placed 337.5 million MNT worth of shares in the accounts at the SCSHCD.

In 2008, a total of 316 complaints relevant to capital market issues were filed, and the FRC has placed significant importance on resolving them in the legally prescribed timeframe. However, malpractices, such as trading the shares of citizens without notice, caused serious disputes between old and new shareowners. Because these disputes are usually finalized at the court, the FRC was unable to settle them due to its limited authority. 225 shares or 80.5 percent of the above 316 complaints were related to issues of selling the individuals' shares without their permission, and 70 percent of them were broker-dealer companies "Ajnai" and "Munkhud", whose licenses were revoked. About 300 complaints related to companies' misconducts, and their loss exposure amounted to 1.5 trillion MNT estimated in current market prices. Hence, the FRC has sent the cases to the State Crime Investigation Office and the Police department of Chingeltei district.

In accordance with its legal authority, The FRC has resolved more than 160 complaints from individuals towards brokerage and dealer's companies that engaged in professional activities on the securities market.

The Commission held a one-day workshop for the management of shareholding companies with the purpose of introducing the Corporate Governance Code of Mongolia enacted at the Commission session of December 26, 2007, and to improve its compliance measures for the protection of shareholders, where over 70 people participated. As a result, 120 shareholding companies out of 376 companies listed at the Stock Exchange convened their shareholders' meeting, and 138 of them submitted their financial statements to the Commission. In 2007, 28 companies distributed 7.4 trillion MNT worth of dividends, whereas, in the fiscal year, 17.3 trillion MNT of 25 companies were distributed.

Key instruments to verify the accuracy of complaints from shareholders are the files and documents of their broker and dealer company. In the early stage of development of the securities market, the files and documents of liquidated brokerage and dealers companies were misplaced or lost and subsequently caused difficulties in resolving the individuals' complaints. For this reason, the documents of clients of brokerage and dealers companies operating in Khuwsgul province were transferred and stored in the province archive.

B. Promoting Public Financial Education

One of the significant factors in assuring public's confidence in the financial market is to improve the financial education of citizens, professional participants, market conduct, dissemination of accurate information for listed companies, and publication of financial reports.

In this regard, the FRC organized a fair titled "Promotion of the Financial Market". During this event, over 20 securities Broker and Dealer companies participated. Also, there were over 200 staff members from the Mongolian Stock Exchange and the Securities Clearing Settlement House for Central Depository (SCSHCD) who participated in the event. Some citizens do not have an account with the SCSHCD, and some wish to check their balance at the Clearing House, and these services were provided free of charge during the fair. Also, the Commission has received complaints from the public directly during the event, and approximately 150 people were serviced. Brochures and pamphlets were disseminated to the public regarding the nature of the capital market, and speeches were well received by the public on the topics of "Principles of Investment" and "How are you going to choose your broker?"

On the website of the Commission, we published and updated relevant information such as the legal and regulatory framework of Securities market, professional institutions' financial statements, and relevant information about the market place.

In 2008, Management of the Securities Market Department gave 4 interviews on "C1-TV" channel's Business time's program and also 2 interviews for the "EAGLE TV". In these interviews, Securities Market Department senior officers provided information related to the capital market, and discussed the challenges faced by the Securities Market industry. Furthermore, for the public newspaper "UNUUDUR", "ZUUNII MEDEE", 5 interviews were given to promote the Commission's policy.

Training and talk shows took place for the professional participants of the securities market. In these interviews, 376 people participated and discussed the following topics: Ethical issues for professional participants, Requirements for Initial Public offering (IPO), Corporate Governance and the draft law on Investment Funding.

During the reporting year, the Commission organized a joint seminar with the Mongolian Stock Exchange in accordance with the Commission's training plan. The Commission paid specific attention to improving the quality of the training content and updated the training materials. Initially, the training was conducted for 2 days and then it was extended to 14 days. The participants gained more dynamic knowledge about the market. Professional licensing training was conducted 3 times; a total of 184 people participated and 149 people were licensed to operate in the Securities Market field.

C. Fighting Against Finance Related Crimes

In international practices, regulatory supervisory organizations pay close attention to the implementation of laws and regulations, and these organizations are willing to share their best knowledge, methodologies and best practices with similar external and internal regulatory bodies.

The Commission is willing to send FRC staff members to training/seminars that are financed by the training organizers or donor organizations' funding which is proven to be useful. One of the significant benefits was that the trained staff members of the FRC can reflect the new ideas and best practices from the training/seminars.

The best methodology to prevent potential financial fraud and illegal activities among the securities market participants is to monitor, regularize and set a standard for implementation of laws and regulations. However, activities of brokers and dealers and underwriting companies have not been inspected in accordance with the inspection guideline. Nevertheless, in the framework of the license extension process, the Commission spotted violations among following six companies. /DARKHAN, MASDAK, ARGAI BEST, BUMBAT ALTAI, ERDENEST, NIKK. The Commission's regular meeting discussed issues relating to these companies and terminated the licenses; previously these companies' licenses had been suspended and violations had been settled.

As State regulation and supervision weakened, some broker and dealer companies took advantage of the crisis and sold shareholders' shares without permission. However, this act has been reduced, and professional participants are starting to realize the need to respect professional ethics. In the past two years, there have been no cases of selling shares without permission reported, but we received complaints related to the previous year's illegal activities.

During the reporting year, the Commission has conducted meetings and on-site supervision on 50 companies which are operating in Ulaanbaatar City, ORKHON and DARKHAN provinces with newly issued IPOs, and held meetings with their managements.

As a result of on-site supervision, the FRC spotted the following common misleading activities, and which directly indicates that the state regulatory framework has loopholes in the supervision mechanism of listed company activities, and that a responsibility structure is not in place.

- In accordance with provision 10 of the Securities Market Law, securities issuers' common duty, and provision 60.3 of the Company Law, a regular shareholders' meeting shall be called and held. If a regular shareholders' meeting is not called and

held within such period, the authority of the Board of Directors shall be terminated.

- Resolutions have not been issued by the relevant authorities in compliance with the law, shares have not been delisted from the registration, but the shareholding company has become a Limited Liability Company and obtained a license from the State Registration office and failed to disburse shareholders' assets and misused the assets of the shareholders.
- Failure to submit the financial statements to the relevant authority. Failure to report their financial statements in the public newspapers, and failure to inform their shareholders regarding their financial standing.
- In accordance with provisions 57, 58 of the Company Law, as well as provision 11 of the Securities Market Law, failure to offer tenders for the selling of minority shareholders' shares.

Issues in relation to property have arisen among investors, and the FRC has directed these to court. In accordance with the inspection guideline, the FRC inspected companies' registered assets which were possessed by those companies. Fixed assets registration contrasted with resolutions which were made during the privatization period by the Property Privatization Committee, State Property Committee and City Property Privatization Authority. As a result of this contrast, some listed companies' management and controlling package owners had transferred some these properties to themselves, and severely violated the minority shareholders' rights. These illegal activities shall be inspected by Law Enforcement Authorities, some companies shall be liquidated, and these activities will need to be resolved by courts.

During the Commission's inspections of the listed companies and professional institutions, the Commission spotted some violations. The Commission has taken corrective action to clear the violations, and those companies and authorities were fined 4.7 million MNT.

D. The Current Condition of the Market

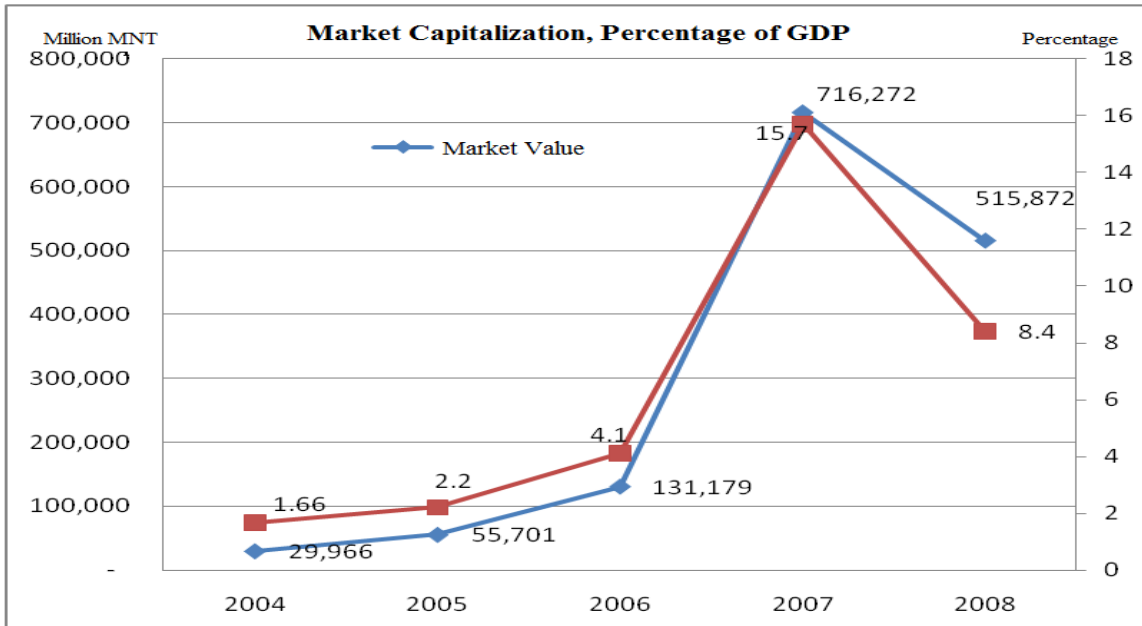
As of 2008, there are 376 listed companies registered with the Mongolian Stock Exchange, 46 broker and dealers, underwriting companies and 1 Securities Clearing and Central Depository House, and 1 savings institution in the securities market. A total of 48 professional intermediaries are operating in the market.

In the reporting year, total income in the securities industry reached 6.5 billion MNT and expenditure accounted for 6.4 billion MNT, while the net profit of the industry accounted for 32.5 million MNT. Of this, 87 percent of the total profit was generated by 9 Broker and Dealer companies. In the beginning of the second half of 2008, securities market trading declined and trading volume plunged. Reductions in trading commissions of Broker and Dealer Companies caused a decline in income, and newly established professional intermediaries' activities have caused rising expenditures in the industry.

Balance sheet	Industry total
CAPITAL	
Current assets	14,291,188,955.94
Non-current assets	7,361,083,760.11
TOTAL ASSETS	
DEBT AND OWNER'S EQUITY	5.417.244.233.73
Short-term debt payment total	1.339.805.526.55
Long-term debt payment total	6.757.049.760.28
Total debt	
Owner's equity	1,867,708,800.00
Equity: a) public	7,802,581,476.49
b) private	
Packet shares	2,796,285,000.00
Share capital total	12,466,575,276.49
Cumulative profit	1,349,498,958.84
Reporting period	32,483,893.23
Previous period	1.317.015.066.61
Owner's equity total	14.895.22.955.36
DEBT AND OWNER'S EQUITY	21,652,272,716.05

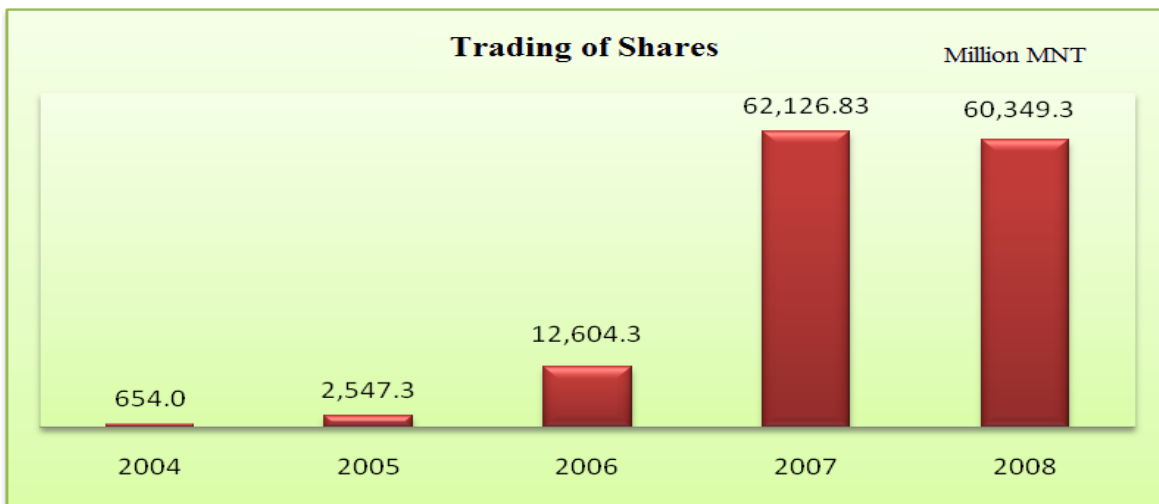
Private companies own 76 percent of the industry's total share capital, but state-owned "Mongolian Stock Exchange" and "Securities Clearing and Central Depository House" hold the remaining 27 percent or 1.8 billion MNT shares.

1. Market Capitalization, Percentage of GDP



Market capitalization reduced by 28 percent and its percentage of GDP declined by 53.5 percent and equaled 8.4 percent, compared to the previous year. On the one hand, shares of the shareholding companies are concentrated with a few people, and the tendency to change their status to a private company has increased, and so the securities of these companies are delisted from the MSE. On the other hand, the trend is related to declining share prices because the amount of investment in this sector has sharply declined with the impact of the financial crisis.

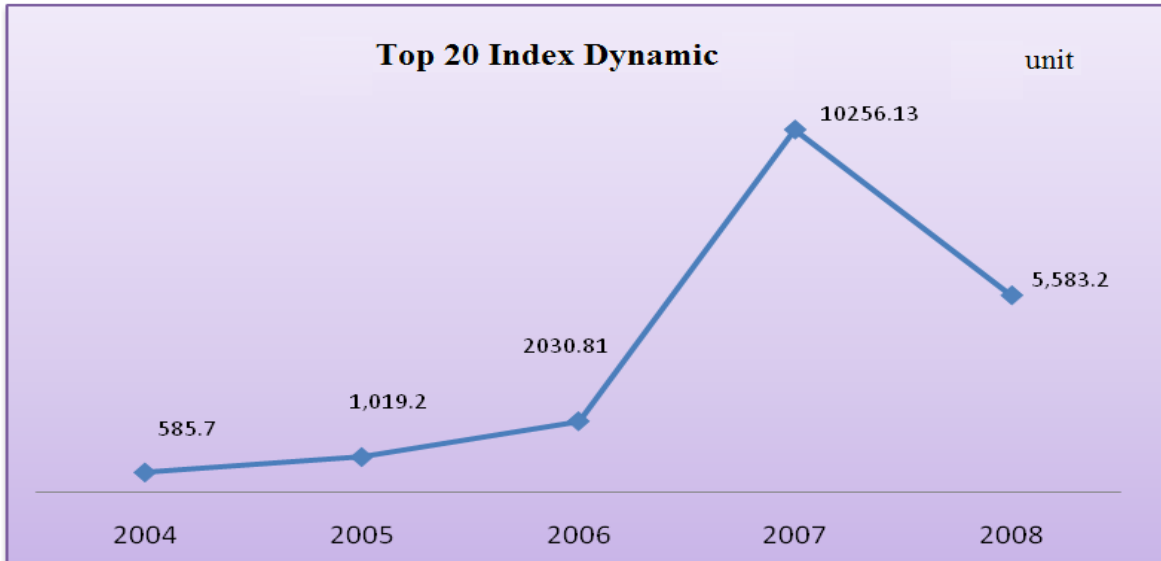
2. Shares



However, the research shows that a decline in the total trading value of securities by 1.7 billion MNT or 3 percent was affected by the reduced buying of securities and the trend of securities trading has predominated due to the national money shortage. Also, direct foreign investment in the capital market has been falling from the second half of 2008.

Due to the impact of the global financial and economical downturn, we have seen more and more investors withdrawing their finance invested in the capital market, and instead of reinvesting, they are spending more in their daily spending.

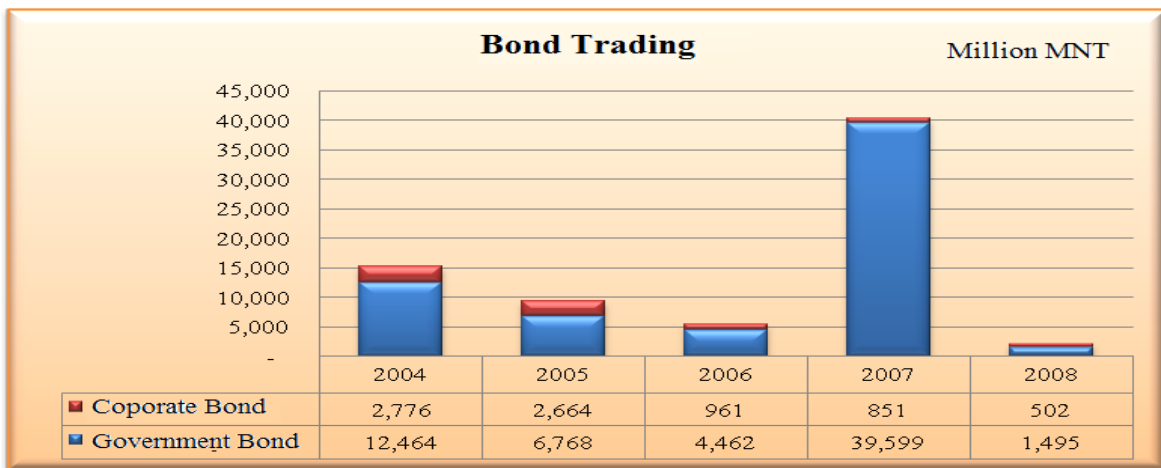
3. Top 20 Price Index



Since 1999, the Top 20 index has been calculated based on a portfolio of 20 securities selected using various indicators in order to illustrate the changes in the securities market. This portfolio of the index is updated twice during each year. Because the general outlook of market development is largely determined by the increase and decrease of the index, regular calculation of the index and implementation of regulatory measurements are critical.

At the end of 2007, the Top 20 index was 10256.13 points. At the end of 2008 it plunged to 5583.2 points, a fall of almost 50 per cent which occupies the majority percentage of the market price. The securities whose shares are actively traded have been reduced, and their prices have declined. As a result, the market has been under downward pressure, which requires considerable support through government policy.

4. Bonds



In order to finance the Government's "40 thousand units housing program", a request to sell the remained 60 billion MNT worth of bonds for an average of 295 days, and the remaining 20 billion MNT with an average interest rate of 10 percent, has been made, yet 1.5 billion MNT worth of bond were sold. Besides, the bonds of Moninjbar LLC were sold at 0.5 billion MNT with a 10.8 percent interest rate for a 24 months term.

The inflation rate is between 24-32 percent and the annual average interest of savings deposits of commercial banks is 18 percent. Thus, the above mentioned 2 bonds did not attract the interest of investors in the current market conditions.

E. Current status of the world capital market

The ratio of market price to GDP is the main indicator of the level of capital market development. In the case of developed countries such as Germany, Japan, South Korea, Great Britain and USA, it is between 52.6-160.2 percent. In the case of Russia, China, Kazakhstan, Kyrgyzstan with market based economies, it is 41.6-89.7 percent. Thus, it becomes a significant factor in the capital market development to a highly developed economy.

In the case of Mongolia, its capital market is still underdeveloped, which can be seen from the 8.4 percent decrease in the ratio as of 2008, despite an increase by 15.7 percent in 2007 from 2.2 percent in 2005.

The global financial turmoil is expected to cause a decrease in indicators of the capital market, and it is still uncertain how long it will continue. There is no positive sign of recovery in the finance and economics of developed countries.

In 2008, the average price indexes of the world stock exchanges decreased by 46.6 percent; the Stock exchange of Asia Pacific Ocean by 47.9 percent; the Dow Jones stock index of New York by 36 percent; FTSE 100 Index of London stock exchange by 32 percent; and NIKKEI 225

Index of Tokyo stock exchange by 45 percent respectively, while the MSE Top 20 Index decreased by 45.5 percent

In 2007, foreign investors made transactions worth 25 billion MNT on the securities market, whereas in the following year 10.5 billion MNT was transacted, a decline of 52 percent in 2008. Furthermore, the amount of the total trading price accounted for 60 percent of the amount of foreign investors' trading while it has fallen by 30 percent in 2008. From the second half of 2008, foreigners have started withdrawing their large amount of investments from our capital market, which is due to the consequences of the financial downturn.

According to the survey by the IMF in October 2008, world GDP growth was 5.2 percent; it dropped to 3.4 percent in 2008, and is expected to fall sharply to 0.5 percent and reach 3 percent by the end of 2010. If this estimate is accurate, there is a high possibility of limitation in the local and foreign investment to be made within the next 2 years, and the market value and amount of trading prices are likely to be reduced in the future.

F. The Further Implementation of the Policy Measures

Capital Market Policy measures to be implemented in 2009 include the following 6 areas:

1. Effective enforcement of some of the measures included in the Program for Development of the Capital Market for 2009-2012, definition of Mid-term government policy about the capital market, and then submission to the State Parliament to get its approval and receive public support. Also, clarify roles and responsibilities and participation of relevant government stakeholders for funding that is necessary for fully implementing its authorities.
2. Drafting of laws on the Securities market, Corporate, Mortgage backed real estate, Mortgage Backed securities, and Investment funds. The draft amendments should be submitted through an authoritative entity and get its endorsement by active cooperation during the process of discussion, and develop the legal framework of the capital market in line with current demand.
3. Strengthening cooperation with diplomats, regulatory agencies of other countries, and international banking and financial institutions. Develop the capital market as well as closely cooperate on increasing foreign direct investment. Within its scope, settle the signing of a Multilateral Memorandum of understanding with IOSCO, and conduct research on highly advanced methods of financial market regulation of regional regulatory agencies, and use its best effort to achieve them.
4. Set a high standard for the list of private companies at the MSE. The revision and delisting of non-performing securities will provide leverage to develop the securities market properly. We will cooperate with the MSE and other relevant entities to improve the processes of MSE listing, which is one way to protect investors from possible risks.
5. Acceleration of the process of introducing and enforcing the Corporate Governance Code of Mongolia approved by the Commission. Also, give advice to joint stock companies
6. and organize workshops on “Corporate Governance Principles” for management committees of JSCs by working with relevant organizations.
7. In the special plan to be approved within the scope of “Promoting Financial Education Year”, the FRC will fully achieve its commitment on actions and measures that are relevant to the securities sector.

2. INSURANCE MARKET

The main objectives for the fiscal year were to develop and form the insurance market within the scope of the insurance legislation, finalize the package regulation and instructions, improve off-site supervision of insurance companies, to find a way to introduce a life insurance system, develop the insurance market infrastructure, disclose insurance market information to the public, and enhance and protect insurance policyholders’ knowledge.

A. Promoting Public confidence in the Financial Market.

The Mongolian insurance market is regulated under the “Law on Insurance” and the “Law on Insurance Intermediaries”. These laws are considered to be formed comparatively well and were recently adopted. Accordingly, as a regulatory body, we have paid attention to developing of the strength of the legal environment for this sector, and adopting the package regulations in accordance with requirements for development of the market.

In the previous year, in accordance with the “Law on Insurance”, 21 package regulations and guidelines were developed, adopted and enforced. In 2008, in compliance with the “Law on Insurance Intermediaries”, over 20 regulations, guidelines and methodologies have been developed. These regulations were approved by the Commission’s regular meetings. The FRC has been monitoring the implementation of these regulations.

In the insurance industry, the foundation of a life insurance system has been newly introduced. Also, in relation to establishment of new life insurance companies, we have developed regulations based on the two general insurance laws.

Thus, the legal environment for insurance sector professional participants and life insurers will be enhanced, and conditions have formed for the state to improve the supervision of the insurance industry.

As a result of the past three years’ operational effort, we have developed regulations, guidelines, standards, conditions and requirements, and consolidated the legal acts, which relate to the insurance industry. We have also printed out the bulletin named “Legal Act for Insurance Regulation”, and it has become the insurers’ professional hand book. It has also become an important source of advice for the insurers.

One of the main components of developed countries’ insurance industries is to support the policy of the professional liability insurance structure. An outcome of supporting this sector extensively is that its role is elevated in the economic structure, and its impact becomes noticeable. For instance, in the European Union countries and the United States, professional liability insurance premium income is higher than in other countries. In terms of the number of professional liability insurance categories, France is the leading country in terms of approved and enforced professional liability insurance categories, and this is regulated by 100 different independent legal acts.

Taking this as an example for Mongolia, and to build the foundation for this kind of insurance, priority has been given to reducing the potential damage that might occur from third parties. The “Motor Third Party Liability Insurance Law” draft has been drafted in collaboration with the Ministry of Justice and Home Affairs, and the draft has been discussed by the governmental meeting. The draft has been submitted to the Parliament of Mongolia. We expect that when this draft law is approved, it is going to be a progressive step toward revolutionizing development of the insurance industry.

The Financial Regulatory Commission has established close cooperation with the International Association of Insurance Supervisors, and we are expanding our cooperation through exchanging information with the IAIS and engaging in its activities. We have contacted similar neighboring insurance regulatory bodies, and we have given priority to expanding our cooperation. In this framework, we are in contact with the Ministry of Finance of the Russian

Federation's Federal Agency of Insurance Supervision, and we have reached agreement to sign the Memorandum of Understanding on cooperation in the Insurance Supervision and Regulation area between the Financial Regulatory Commission of Mongolia and the Ministry of Finance of the Russian Federation.

We are jointly implementing a project (Technical Assistance "Upgrade and Enhancement of Insurance Regulations) with a British consulting company which was engaged by the European Bank for Reconstruction and Development. The project consultant has drafted the first recommendation to enhance the current regulation, instructions, and methodologies which are being implemented by the FRC. The consultant is also assisting the FRC to make the regulations in line with international standards.

In the framework of Technical Assistance of the International Monetary Fund, we have invited an international expert to work with us, we have come up with an agreement, and we have worked to define the short and medium term policies for the insurance industry.

In aggregate, 16 insurance companies are licensed to engage in 43 types of insurance activity in 2008. Two insurance companies in 6 types of insurance activities had their licenses suspended and 1128 people are licensed to engage in insurance intermediary activities.

The licensing of the National Life Insurance Company has introduced long term or life insurance in the insurance industry, and it has become a fresh idea in Mongolia.

This company has advertised its activities widely, and introduced new products of life insurance in the market, and they have attracted many customers.

We have noticed that in the insurance market there is lack of insurance intermediaries, and so we issued a representative license to "MNA and MGIB" LLC companies. Unfortunately, MNI did not satisfy the requirements, and we set requirements to improve their activities, but their performance has not improved. Therefore, we have terminated their license.

Thirty auditors were licensed to audit insurance companies' financial reports in accordance with the Law on Insurance. As well, 9 people were licensed to engage in general insurance and life insurance actuary activities.

We have given high priority to protecting the legal interests of insurance market participants. In 2007, 28 complaints were received. In 2008, policy holders started sending their complaints to the FRC. During the reporting year, 57 complaints were received, investigated and solved according to legal provisions, and advisory services related to the insurance market legal system and market regulation have been provided by the FRC upon request from individuals and entities. Furthermore, 502 official letters and requests were received in relation to the insurance industry, and responded to in the legally prescribed timeframe. Also, 226 official letters were sent to relevant authorities.

Previously, some transportation and insurance companies were collecting compulsory insurance fees by automatically adding to ticket fees, even though liability insurance of passengers and drivers was voluntary. Such malpractices, in breach of the relevant laws, caused frustration

among the public. In order to prevent this illegal activity, as well as to not repeat this malpractice again, we are collaborating with the Road Traffic Department to monitor insurance companies to determine whether activities are being organizing to enroll auto-vehicles and drivers in the liability insurance in accordance with legal acts.

B. Promoting Public Financial Education

Since Mongolia transferred into the market economy system, the private sector has been in charge of the insurance industry for the past 20 years. Even though insurance companies have been introducing many new insurance products, there has been a huge absence in the insurance industry in regard to providing satisfactory services to the public. On the other hand, there has been a shortage of professional human resources and a lack of transparency for their customers. From the other side, there is not much actual work that has been done in promoting insurance as an instrument to protect people from financial risk, and its role as a resource to guarantee and protect their sustainable livelihood.

The Commission recognizes the importance of staff proficiency and capacity building of professional participants, and so several training programs were conducted, such as:

- 32 programs for insurance agents;
- training program for auditors who are going to conduct supervision on financial reports of the insurance companies;
- two programs for actuaries, and insurance asset management, conducted in cooperation with the Association of Mongolian Insurers, and with funding from the Luxembourg Government; and
- 3 programs which covered three provinces and licensed agents who will involve herdsmen in index based livestock insurance with the team of the “Index based Livestock Insurance Project”.

In these training sessions, approximately 2000 people were trained, and it has given substantial help to development of the infrastructure of the insurance industry.

In order to protect citizens from possible risks associated with life, health, property and liability, we are promoting the importance of insurance among citizens, and constantly providing brochures. These have been written in a simple way, and all kinds of information related to the insurance industry have been disseminated to policy holders. We also provide advisory services upon request from individuals and entities.

During the “Promotion of Financial Market Festival”, a compilation which included regulations, instructions and guidelines (“Compilation of Legal Act of Insurance Industry”) was printed in cooperation with the Asian Development Bank TA 4737 MON Capacity Building of Financial Sector project. By disseminating this compilation, we took an important step to enhance the knowledge and skill of insurance industry participants

The FRC disseminated, through mass media and its website, news and information about its approved policies, actions, rules and instructions. These were intended to improve insurance market regulations in order to ensure transparency. Also, information was disseminated about

licensed insurers and licensed auditors of professional insurance participants. In necessary cases, as a response to requests, the information was provided through official letters.

During the reporting year, in order to improve the skill and capacity of policy holders, we have published the following publications: “Life Insurance”, “What is Insurance”, “Insurance Questionnaires”, “Attention for Foreign Invested Companies”, and “Explanations of General Insurance Class”. Also, 3 speeches have been given in relation to new micro-insurance and new life insurance, and we gave 3 interviews on Mongolian National Radio.

B. Fighting Against Finance Related Crimes and Misconduct

By carrying out on-site and off-site inspections relating to the financial reports of insurance companies, the Commission monitors the implementation of the Insurance Act, and fulfillment of license requirements. The Commission also conducts planned and random inspections of the insurance professional participants’ activities.

In the reporting year, the Commission conducted on-site inspections on the following insurance intermediaries’ companies: “BODI Insurance”, “Prime General Insurance”, “MIG Insurance”, “JONON Insurance”, “GANZAM Insurance”, “AME”, and branch offices located in following provinces ORKHON, DARKHAN UUL, KHENTII.

In the course of the on-site inspections on the insurance companies, we found many violations, including a common violation, such as insurance companies’ representatives selling insurance policies to customers without any license and having compensation for the job. Consequently, these violations were dramatically reduced.

However, during the reporting year’s on-site inspections, we have found the following common violations among insurance companies: violation of the intention of investment purpose, insurance companies directly utilizing the reserve fund, purposely violating the Commission’s requirements, passing the set limits, and utilizing the insurance reserve fund for different purposes. In relation to the violations that have been committed very frequently, the Commission needs to pay attention to improve its supervision.

By conducting off-site inspections, the FRC identifies the principles used for defining policy. It is also used as an instrument for risk management. Furthermore, it plays a role in establishment of the statistical database. During the implementation process, the FRC conducted inspection and analysis on the financial institutions’ financial reports to inspect whether the capital of the company meets the prudential ratio requirements. The FRC takes action to rectify performance which is alarming, as well as to inspect any relevant subject matter.

In the past year, we received insurance companies’ quarterly financial reports. The FRC consolidated the financial reports and conducted analysis. During the implementation of off-site inspections, insurance companies met solvency prudential requirements, but there were huge differences between the companies. Some of these companies’ performance indicators were unbelievably high, which is very doubtful. Therefore, there is room for improvement on the prudential ratio requirement methodology calculation in the near future.

Thus, the Commission conducted analysis on the financial reports of insurance companies and produced a consolidated financial report. Research work has been done in regard to companies’

financial capacity, and, to set the prudential ratio again, some methodologies were introduced as an experiment.

Penalties in the total amount of 20 million MNT were imposed on insurance companies which were found guilty according to the examinations. Penalties were allocated to the state budget. Orders were issued by the State Inspectors requiring the companies to cease violations and rectify the flaws. Implementation of the orders was monitored by the FRC.

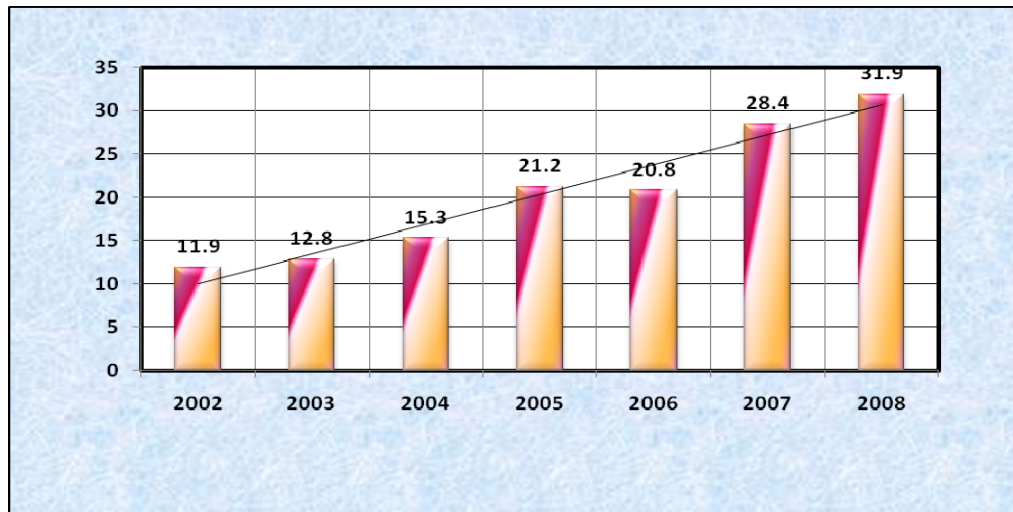
C. The Current Condition of the Market

During the reporting year, 16 insurance companies engaged in general insurance activities, and 1 insurance company engaged in life insurance activity. The insurance industry, as a whole, wrote 21.5 billion MNT of premium income, and paid 4.5 billion MNT in compensation to policy holders. The insurance industry, as a whole, recorded a total profit of 1.4 billion MNT.

Insurance companies' reserve funds increased by 3.6 billion MNT to 21.4 billion MNT, and made reinsurance agreements worth 4.7 billion MNT.

In 2007, 81.9% of the insurance industry's premium income was concentrated in 5 insurance companies. In 2008, this number decreased to 79.1%. This indicates that competition among insurance companies is tightening, and that medium and small sized companies are becoming active.

1. Total Assets

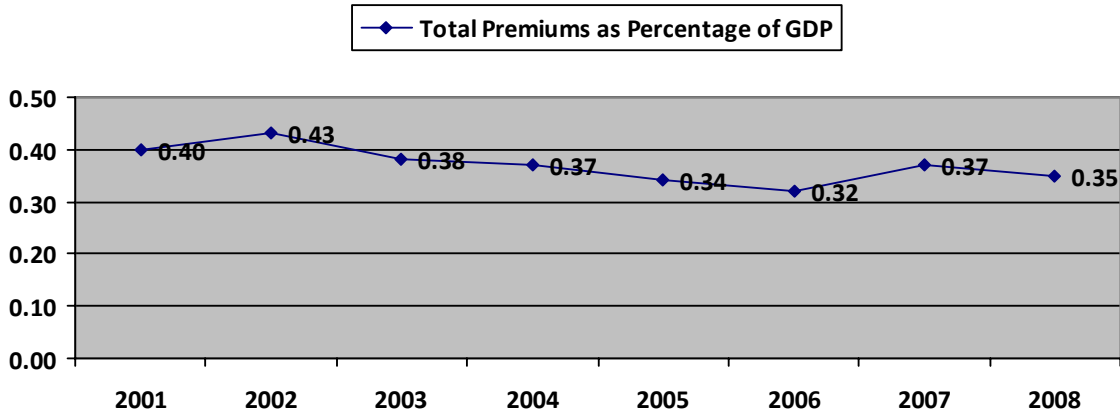


Comparing the total assets of insurance companies to those of the previous year, they have increased by 12.3% or 3.5 billion MNT to 31.9 billion MNT. In the reporting year, the Life Insurance Company was established with a reserve fund of 1 billion MNT. To deduct its fund, actually there was decrease compared to the previous year.

2. Premiums Income

While insurance premiums have been steadily increasing by an average amount of 1.9 billion MNT within the last few years, a sharp increase was observed in 2007 when growth reached 5.1 billion MNT or 43.2%.

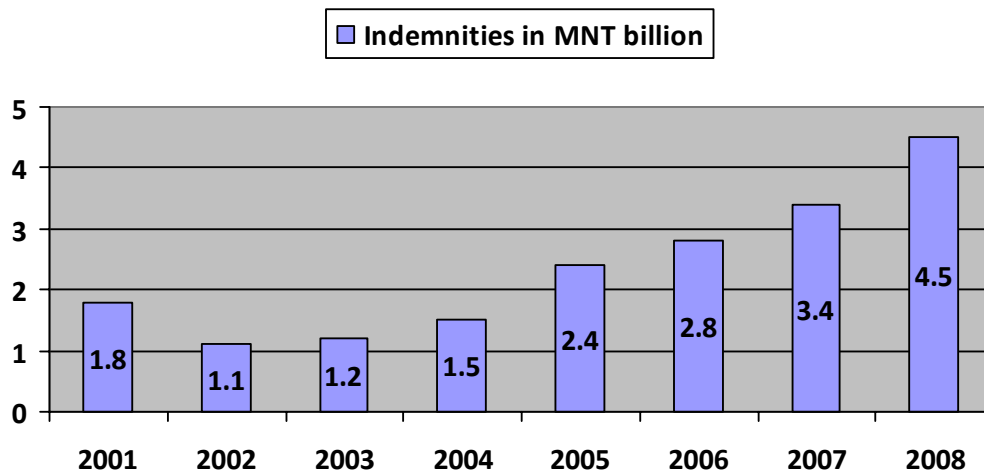
Many countries around the world have been affected by the financial and economic crisis. Mongolia is also affected by this crisis, but in 2008 this indicator increased by 4.6%, which indicates that new insurance products have been introduced. On the other hand, citizens understand the importance of insurance, and there is a tendency to insure their risks.



3. Total Premiums as Percentage of GDP

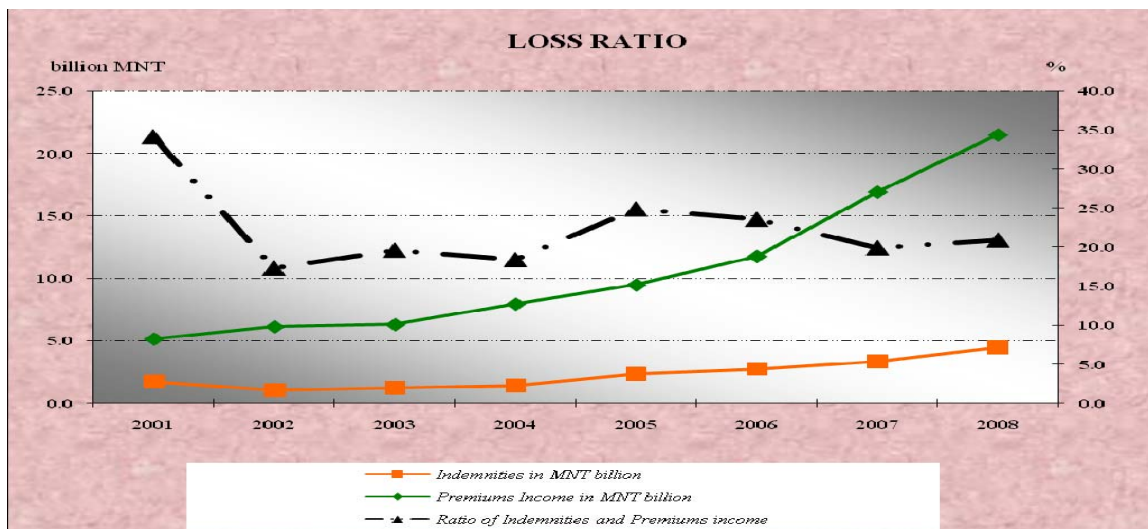
The downward trend of insurance premiums as a percentage of GDP observed during the last few years changed in 2007, when 5.2 billion MNT or a 0.05 percent increase was recorded. But, this year, a 0.02 percent decrease was recorded due to the impact of the financial and economic crisis. This indicator is about 10% in developed countries. Therefore, 0.4 percent in Mongolia shows that the insurance market can develop further. It is necessary to carry out measures to improve public knowledge, and to introduce new types of life and compulsory liability insurance. Per person premium income has been increased from 1500 MNT to 8000 MNT.

4. Indemnities



In 2007, indemnities increased to 21.6%. But during the reporting year they increased to 32.4% or 1.1 billion MNT. The increase of indemnities in the reporting year was mainly influenced by a 37.3% rise in property insurance indemnities and a rise in liability insurance indemnities.

5. Loss Ratio



The annual increase of the collected premiums was almost 5 times higher than the indemnities payout. This trend sharply increased in the last 2 years, and may cause a decrease of public trust in insurance, and result in negative effects on insurance market development.

One of the main indicators for the insurance sector in Mongolia was the loss ratio, calculated by dividing total indemnities to premiums. According to this calculation, the ratio was 20.9%. However, international practice is to calculate the ratio by dividing total indemnities to income accounted premiums. After the corrected calculations, the ratio is 30.6% which is 18 per cent lower than the previous year. The loss ratio shows how many MNT is compensated back to the insureds from every 100 MNT of premium.

There are 98000 insurance companies that are actively engaging in insurance business around the world, of which 12.2% or 12000 companies are operating only in the United States. For the first time since 1985 in the worldwide market, insurance premiums plunged in 2008. This directly relates to the recent financial and economic crisis, which has slowed down GDP growth by 3.4 percent.

In the first quarter of the fiscal year 2008, life insurance premiums reached 1.6 trillion, non-life insurance premiums reached 2.4 trillion, and total premiums of insurance profit reached 4.0 trillion USD. This was 1 per cent lower than for 2007.

The United State leads in total premiums collected by insurance companies in the world market with 30.28%; United Kingdom is 11.42%; Japan 1.46%; France 6.62%; Germany 5.49%; Italy 3.50%; Canada 2.47%; and China 2.28%, respectively.

In the Asian countries insurance premium growth in China was 27.5%, in Korea 24.1%, in Vietnam 28.5%, and in Mongolia 27.2%.

Comparison of gross domestic product with insurance premium income indicates the development of the country. In accordance with this indicator, Lichtenstein leads with /301.68%/, Luxembourg /42.49%/, and United Kingdom /17.48%.

Mongolian insurance premium income accounts for GDP 0.35%, which is relatively similar to those countries that transferred into the free market system in 1990 including Kazakhstan, /0.39%/, Vietnam /0.42%/, Russia /0.57%/, Ukraine, /0.85%/ and Bulgaria /0.89%/.

AXA group is the leading insurance company in the world in terms of insurance premiums collected with /168.8 billion USD/. Other large companies included Assicurazioni Generali with /113.8 billion dollars, Berkshire Hathaway with /118.2 billion dollars, Assicurazioni Generali with /113.8 billion dollars/, AIG with /110.1 billion dollars/, and Prudential with /98.5 billion dollars. In terms of reinsurance premiums, Munich Re had /30.3 billion dollars/, Swiss Re /10.6 billion dollars/, Berkshire Hathaway Re /17.4 billion dollars/, Hannover Re /10.6 billion dollars/, Lloyd's /8.4 billion dollars/, and Reinsurance Group of America Inc /4.9 billion dollars/. These companies are leading in the market.

Data indicate that, in the first quarter of the fiscal year 2008, insurance indemnities in the world scale reached 2.9 trillion dollars of which life insurance was 1.35 trillion, and non-life insurance was 1.54 trillion dollar/. They indicate that the compensation level reached 72.5%

In term of insurance indemnities in the world, the United States is leading and its share of the world market is 29.7%, Japan is /11.2%/, United Kingdom is /10.87%/, France is /6.05%/, Germany is /4.95%/, Italy is /3.21%/, Spain is /2.54%/, and Canada is /2.05%/ respectively.

For the world, insurance premium growth in Asian countries played a substantial role. But in terms of insurance indemnity, Asia accounts for only a small percent, and this indicates that in this region the insurance market is just in the developing stage, and the legal environment and regulations are not up to international best practices. Insurance indemnity growth was 19% in China, 15.5% in Korea, and 5% in Japan, and it accounts for 82.4 percent in the Asian insurance market.

In the first half of fiscal year 2008, the following insurance companies were leading in terms of insurance indemnity: AXA group /141.2 billion dollar/, Allianz group /118.1 billion dollar/, Assicurazioni General /101.2 billion dollar/, AIG /99 billion dollar/, Berkshire Hathaway /98.9 billion dollar/, Prudential /68.1 dollar/, and State Farm Insurance Cos /5 billion dollar/. In the structure of insurance indemnity, property was 32.56%, life insurance and accidental insurance was 22.6%, commercial and health insurance was 16.2%, liability insurance was 12.3%, and financial insurance was 15.6% account's respectively.

One of the leading insurance companies, AIG, will get an \$85 billion loan from the federal government in exchange for a 79.9 percent stake in itself. It was one of the sensational news items in the insurance market in 2008.

In accordance with the international banking and financial institutions' estimates that world GDP growth will decline by 0.5 percent, insurance industry development will slow down and this will influence the Mongolian insurance sector.

A. Further implementation of Policy Measures

Specific attention should be paid to following challenges to be solved in the mid-term period:

- Considering the nascent stage of insurance market development, it is necessary to introduce life insurance products as well as compulsory liability insurance products to professions such as notaries, attorneys, doctors, food manufacturers, and persons who work with substances which may endanger the environment. Also, it is important to set out and ensure compliance with the rules, regulations and instructions in relation to new products and services.
- It is necessary to implement policies to increase the Mongolian insurance market's competitiveness through expanded financial capacity of insurance companies, and by enhancing governance and management competence; to integrate and expand smaller companies by increasing the number of insurance companies; and to create opportunities for insurance companies to make short-term investments in other financial markets.
- Increasing interest of foreign investors in establishing insurance companies, or attempting to purchase local companies, which creates pressure to form and adopt relevant legal provisions to protect the domestic insurance market by studying and applying international and regional practices.
- Building a legal framework that requires foreign companies operating in Mongolian territory to be insured with local insurance companies, in order to cut the operations of unlicensed foreign insurance companies in the Mongolian market through insurance dealers and intermediaries.
- To build a database equipped with modern software, consistent with current market demands, and develop and carry out financial reporting in line with international standards to establish fair and timely insurance information.
- In order to introduce a new reinsurance system in the domestic market, to establish a reinsurance risk reserve fund, utilize assets for investment purposes, and develop regulations to monitor and regulate its activities.

3. MICROFINANCE SECTOR

The objective of developing the microfinance sector involves the promotion of financial stability and risk management, improvement and expansion of intermediation, improved accessibility, and improved products and services. It also involves better infrastructure, surveillance and regulation of the sector. Pursuing these goals, the Commission announced 2008 as the year to support microfinance sector development. Consequently, an action plan was approved, and its 6 objectives were addressed in this fiscal year.

A. Promoting public confidence in the financial markets

The legal framework for microfinance institutions such as SCCs, NBFIs and currency bureaus does not meet market requirements, and does not set clear rules. This makes government regulation burdensome, and builds grounds for illegal and fraudulent actions to occur repeatedly, which frustrates customers.

Therefore, it became a crucial issue to foster the stability of development by improving legal acts and regulations to accord with international standards. It was also crucial to improve market infrastructure, surveillance and regulation.

In order to improve the legal environment governing NBFIs' activities, the Commission has drafted amendments to the branch law and submitted these to the Ministry of Finance. The amendments were brought in based on feedback from market participants such as the NBF Association and other related professional institutions. They also drew on the practice and experience of similar foreign institutions. In this context, to help NBFIs manage their risk more efficiently and strengthen their financial capacity, nine regulations, rules and manuals were renewed / issued.

SCCs' activities have been regulated by the Cooperatives law since 1998 which means these entities still impose the same high risk to the public. Even though the FRC is tightening the supervision and requirements for the SCCs, there is still the possibility of serious recurrence of the SCCs' incidence of insolvency. Therefore, an independent law on SCCs has been drafted, reviewed by related Ministries and passed to the Parliament, where the initial hearing has been accomplished.

To introduce risk management to the SCCs, and help them to strengthen their financial capacity, the regulation on setting and monitoring of the prudential ratios for SCCs has been approved and entered into force.

Although currency exchange activities are regulated by the Bank of Mongolia (the Central Bank) according to the Currencies law, the FRC was assigned the administration of the licensing and monitoring of the currency bureaus, after an agreement made at the Financial Stability Council. The regulation on currency bureaus has been amended to improve regulatory efficiency. Furthermore, a task force to draft amendments to the Currencies law has been established under the joint decree of the Governor of the BOM, Chairman of the FRC, and the Minister of Finance.

To further develop and strengthen the subsector, the FRC has raised the minimum paid-in capital requirement for the NBFIs. Consequently, we received and processed 36 NBFIs' applications to increase or to amend the structure of capital.

According to requests, 14 new licenses, 2 branch approvals, and 8 activities expansion approvals were granted. Also, 3 NBFIs' terminations of certain activities, 2 license terminations and 1 rename application were processed and resolved by the FRC during the reporting year.

Due to breaches of 'the Law on non-bank financial activities, provisions of the licensing regulation', and failure to meet the requirements set forth during the license suspension period, 13 licenses were revoked. Also, 4 licenses, suspended for the period of 1-3 months, were discharged on the grounds of requirements set out by the Commission.

The Commission granted licenses to 45 cooperatives to undertake savings and credit activities on the basis of the respective applications. Due to breaches of the Cooperatives Law and provisions of the licensing regulation, 17 SCC licenses were withdrawn. Also, 4 SCC licenses, suspended for the period of 3 months, were revoked on the ground of unfulfilled requirements set out by the Commission.

Although registered, 59 cooperatives did not meet the requirements of the licensing regulation. Therefore, pursuant to the decision to exclude them from the list of regulated entities, the Cooperative and State registration offices of the National tax department were sent an official note, and the resolution was publicized through the Commission website and 'Dzuuny medee' newspaper.

According to the Law of procedures enforcing certain provisions of the cooperatives law, passed in June 2007 by the Parliament, 499 registered SCCs which did not submit license applications to the Commission are to be terminated. Out of this number, 227 SCCs from Ulaanbaatar and 61 from local areas were terminated according to court decisions.

Out of registered, but not Commission licensed SCCs such as "Tuv aziin hurungu oruulalt", "Tumentii invest", "Zindaa invest", "Hamтын nuхurlул" and "Erdenii ergelt", which were non-operational and financially troubled, were under permanent supervision. In particular, the supervision was upon repayment of savings to deposit holders, with monthly reports on loan and deposit repayments. The case of "Tumentii invest" SCC has been considered as criminal and forwarded to the State criminal inspection department for investigation.

Since it became responsible for regulation of Currency exchange bureaus, the Commission has developed a relevant policy. Currency exchange bureaus have not been under close monitoring before, and the Commission has stipulated that a license is required for this activity. Accordingly, the licensing regulation has been passed by the Commission, and 52 bureaus licensed by the Bank of Mongolia were asked to submit applications for re-licensing under the renewed licensing requirements. At the year end, 21 legal entities were granted 25 licenses of currency bureaus, and 39 licenses were withdrawn due to failure to duly re-apply with the FRC.

To expand financial services to low income people, the working capital of microfinance institutions has been enhanced by the IFIs. Consequently, 21 NBFIs applied for the program loan of the World Bank's 'Sustainable livelihood' project; and 27 NBFIs and 9 SCCs applied for the IFC long term investment project. Relevant information has been sent to the respective institutions.

During the reporting year, the Commission received 2229 letters and complaints related to the activities of the microfinance institutions and other entities. As required, 468 of them were officially and promptly responded to; and 99 complaints related to SCCs were reviewed and responded.

B. Promoting public financial education

The stability of the financial markets depends largely on the financial knowledge of citizens. Mongolian microfinance institutions are immature, with little coverage of operations, due to

their limited financial capacity. They comprise a small part of the assets of the total financial sector of the country, and do not have an appropriate legal framework of regulation. Therefore, the future trend of their development has not been properly defined, so their customers do not have a full understanding of the services.

Hence, the Commission has undertaken the following actions to promote general public financial education:

- according to the Initiative of the President of Mongolia, ‘Challenges of the Small and Medium Enterprises’, a round table dialogue was organized with broad participation from relevant Government Authorities and Ministries, SMEs, NBFIs and SCCs;
- contributed to the organization and preparation of the 11th annual conference of the Microfinance Development Fund, which was held in Ulaanbaatar, and has facilitated local microfinance institutions’ participation in the event;
- printed and distributed brochures about NBFIs’ and SCCs’ activities and depositor protection in the public event ‘Promoting the financial markets’, which was organized under the ‘Microfinance development year’ agenda;
- the lecture and research presentation contest called ‘Microfinance development and trends’ has been announced among scholars, researchers and students; the received works have been compiled into a manual of theory and methods, and distributed to the public; and
- to promote knowledge about the financial markets and activities of the FRC to the youth, a TV trivia game ‘AHA’ among senior accounting students of the School of Economics of the MNU and Global Leader Institute has been played, and broadcasted through the channel 25.

To build the capacity of microfinance institutions, efforts were made to involve staff members of the market intermediaries at the following foreign and domestic training programs, seminars and forums:

- with facilitation from the FRC, representatives from 11 NBFIs and 2 currency bureaus took part in the ‘Foreign exchange professionals’ forum by the Bank of Mongolia;
- 10 representatives from the FRC and its regulated entities, attended a forum hosted by the Bank of Mongolia – ‘Banking system transactions clearing, accounting and information staff meeting’;
- workshops on ‘Regulation on loan loss provisioning’ and ‘Regulation on SCC prudential ratios’, featuring the use of these regulations to measure risk, were conducted for the management of the SCCs registered in Ulaanbaatar and Orkhon aimag;
- assisted management of the Mongolian Cooperatives Association in attending the ‘Assisting credit unions through business development centre’ seminar, hosted by the Asian Confederation of Credit Unions (ACCU) and Credit Union League of Thailand in Bangkok; and
- facilitated representatives of the SCCs in attending the ‘Capacity building of the cooperatives and regulators’ training program, organized by the ACCU in Hanoi.

According to the goal of making information about the activities of NBFIs, SCCs and Currency Bureaus transparent and efficient, the policies of the FRC, active regulations and names of

institutions which had their licenses granted, suspended or revoked were posted on the FRC website and printed in the local newspapers.

C. Fighting Against Finance Related Crimes and Misconduct

In accordance with the Commission's integrated supervision plan, 44 NBFIs were inspected in line with special guidelines. During the course of supervision, the Commission has identified a number of violations of both regulations and laws relevant to NBFIs and other relevant legislative acts. The following were the common violations found:

- NBFIs reflecting in financial statements changes in their capital structure without prior notification to the FRC;
- not conforming to the accounting standards; financial statements were not consistent, with errors on the balance sheet;
- breach of the institutional charter by failure to operate internal audit and credit committees in a proper manner; and
- lending procedures not fully observed; borrower customers' files not complete.

In the reporting year, the Commission received financial statements on a quarterly basis and gave out detailed instructions and recommendations. Consolidation and analysis of financial statements were performed as an implementation of off-site supervision. The following violations were found in the course of off-site monitoring:

- improper provisioning due to incorrect classification, which resulted in errors in financial statements;
- asset quality deterioration due to the failure to diversify the loan portfolio; loans were concentrated to few customers, followed by arrears in loan and interest repayments;
- accounting did not comply with the IAS; and
- breach of foreign exchange exposure limits.

While conducting inspections, the Commission imposed 4.9 million MNT administrative fines on 3 NBFIs. In order to reduce violations, the FRC gave out recommendations and advice, as well as State Inspectors' prompt corrective action official letters, to 9 institutions.

In order to restore public confidence in the Savings and Credit Cooperatives, it is crucial to strengthen supervision, take prompt actions towards enforcing the criminal cases in cooperation with the related authorities, and guard the interests of depositors consistently.

Pursuing the regulatory objectives of ensuring smooth operations of the SCCs, protect from risks, and eliminate any violations, 23 SCCs were inspected and the following violations were commonly found:

- not complying with the requirements of the Law, SCCs attracted funds from non-member depositors and lent to non-members;
- files of customers were incomplete;
- failure to file in time the changes to the equity and members' register to the State Registration Office;
- internal control and lending committees do not discharge all the powers assigned by the Law; and
- basic accounting documentation is not kept properly.

SCCs are gradually learning to submit quarterly financial reports to the Commission, and becoming more responsible and responsive to the recommendations, notes, and corrective requirements that are issued according to the findings from off-site monitoring analysis. This is the reason that business relations between the Commission and the SCCs are becoming more coordinated.

The Commission has been monitoring SCCs' financial reports, analyzing and pointing out potential risk areas, issuing recommendations and taking corrective measures as required. Off-site monitoring of SCCs reveals the same issues as with NBFIs. In addition, NPL, liquidity, reserve and operational expenses prudential ratios are still not being complied with.

During the examinations, the management staff members of 3 SCCs were suspected to be running illicit business. As a result, the cases were transferred to the State Criminal Inspection Department for further investigation.

In the reporting year, based on supervision, 7 cooperatives which violated laws and regulations were fined in the amount of MNT 3.2 million. Also, 22 cooperatives were sent corrective action notices with requirements to take corresponding actions, the observance of which was monitored.

In order to have effective supervision and enforce the laws, currency bureau activity was stipulated to be allowed to run only after obtaining a permit issued by the Commission. Thus, to ensure compliance with the Regulation on operation of currency bureaus, which was approved by the Commission decree No.91 from 2008, 32 bureaus located in the 1 and 2 khoros and Tumurchnii Street of Chinggeltei District in the Ulaanbaatar City were examined by the Commission.

In the course of examinations, the entities and individuals which were exchanging foreign currencies without licenses were given official notes. Also, currency bureaus were checked for compliance with the regulations and laws, and given corresponding corrective official notes from the state inspectors of the Commission.

The most common violations found during the examinations were:

- setting a different exchange rate for banknotes depending on their face value, year of print, and condition;
- failure to hand receipts to the customers after each transaction;
- failure to send reports to the relevant authorities on a regular basis;
- failure to report transactions with an amount equal to, or greater than, MNT 20 million to the FIU at the Bank of Mongolia; and
- companies holding licenses for currency exchange bureaus renting these to a non-licensed person at Tumurchnii Street as called as Naiman sharga of Chinggeltei District.

Examinations showed that it is necessary to keep an appropriate level of regulation and supervision on the currency exchange bureaus in order to enforce and ensure observance of the relevant laws and regulations, which is important when protecting consumers' rights.

Pursuing the goal of ensuring the stability and soundness of the microfinance sector, and to prevent the risks affecting it, the Commission is working on ways to improve and develop the environments for such services as money remittance, trust, factoring, financial leasing and e-payments.

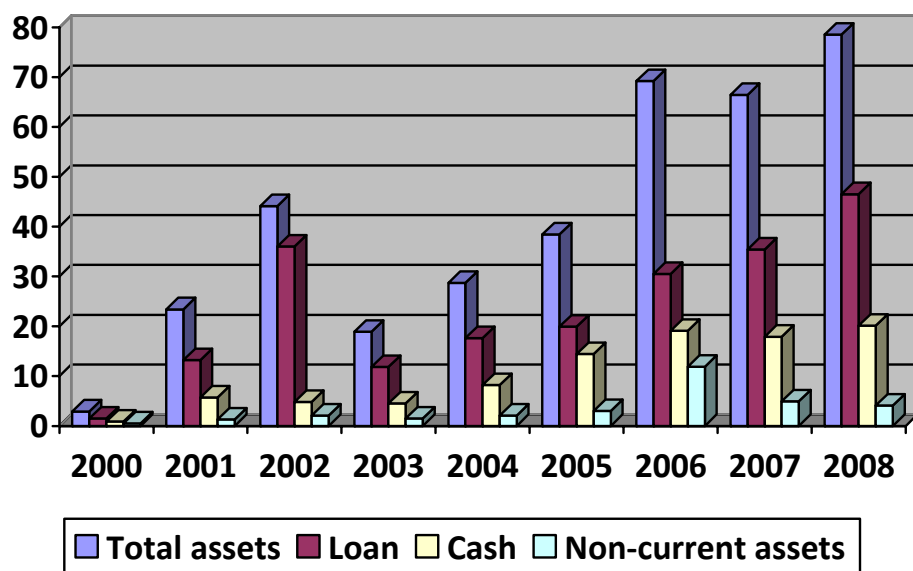
D. The Current Situation of the Market

Non-Bank Financial Institutions

Currently there are 132 licensed Non-bank financial institutions in the market. Of these, 109 operate in Ulaanbaatar City, and 23 operate in provincial areas. There are 14 NBFIs that were supported with foreign investment from Japan, UK, Ireland, China, Korea, Italy and Kazakhstan. There are 42 branch offices of the NBFIs, 445 shareholders, and 657 employees sector wide. Moreover, NBFIs provided financial services to over 120 thousand customers in aggregate.

In the reporting year, NBFIs earned MNT 18.9 billion of income, of which 60.1 per cent or MNT 11.6 billion comprised interest income. Net profit was MNT 3.9 billion.

1. Total assets

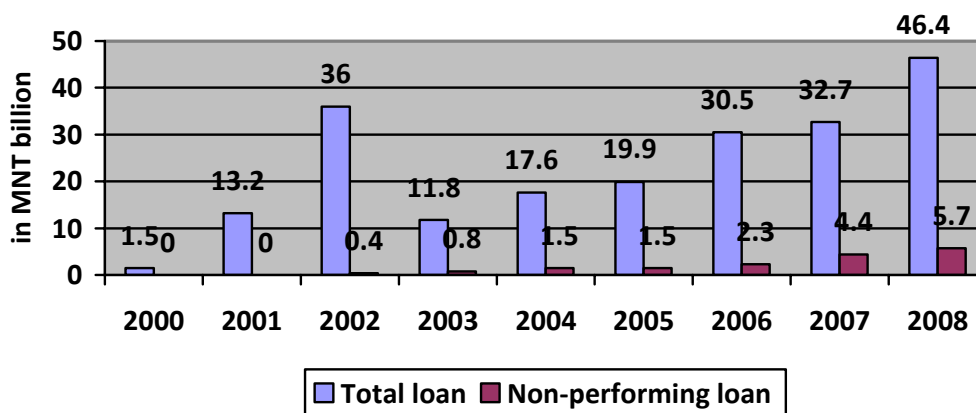


In 2008, NBFIs' total assets increased by 18.2 per cent or MNT 12.1 billion. Outstanding loan balances increased by 31.4 per cent or MNT 11.1 billion. The increase in the ratio of interest bearing assets by 5.8 per cent to 59.1 per cent of total assets implies a high demand for loans.

Due to the fact that NBFIs use their own capital and relatively cheap funding, the ROA, which is 6.1 per cent, is higher than that of the banks. On a consolidated basis, the NBFIs meet the main requirements of the prudential ratios.

2. Loan portfolio quality

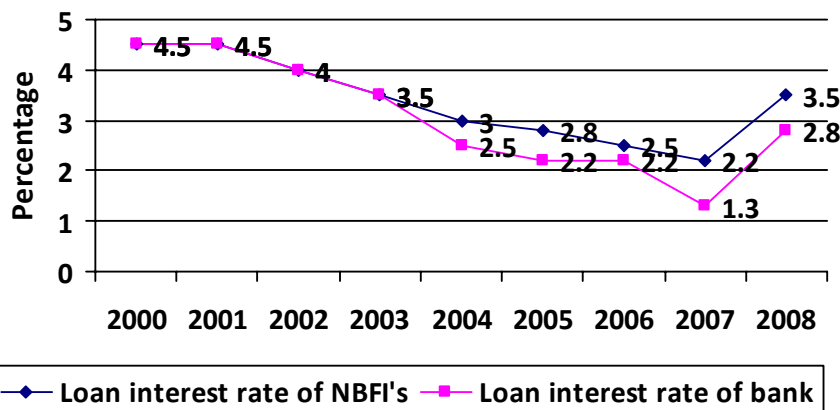
Quality of the Loan Portfolio



NPLs accounted for 5.7 per cent of outstanding loan balances and 3.4 per cent of total assets, which indicates a healthy position in the industry. A total of MNT 2.0 billion worth of loan provisions were made.

3. Loan interest rate

Loan interest rate of Banks and NBFIs



Despite a trend over several years of interest rate decreases among the NBFIs, which are influenced by banks' rates, the financial and economic crisis and inflation have driven the average rate up by 1.3 per cent. This is still lower than the rate of growth of the banks' interest rates. While high interest rates bring higher income, they also carry the risk of portfolio quality deterioration and a drop in financial indicators. Therefore, provisioning shall be made more accurately.

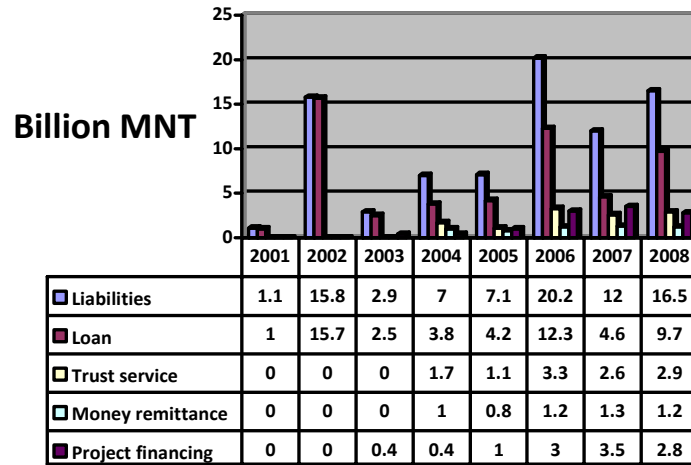
4. Equity and capital

The Commission has decided to strengthen the financial capability of NBFIs. Therefore, it introduced a requirement to increase the minimum paid-in capital of the NBFIs. Consequently, equity increased by 14.4 percent in 2008, and 83.6 percent of equity is composed of paid in capital or share capital.

The Return on Equity is 8.3 percent, because 70.1 per cent of total liabilities of the NBFIs is their own funds.

5. Liabilities

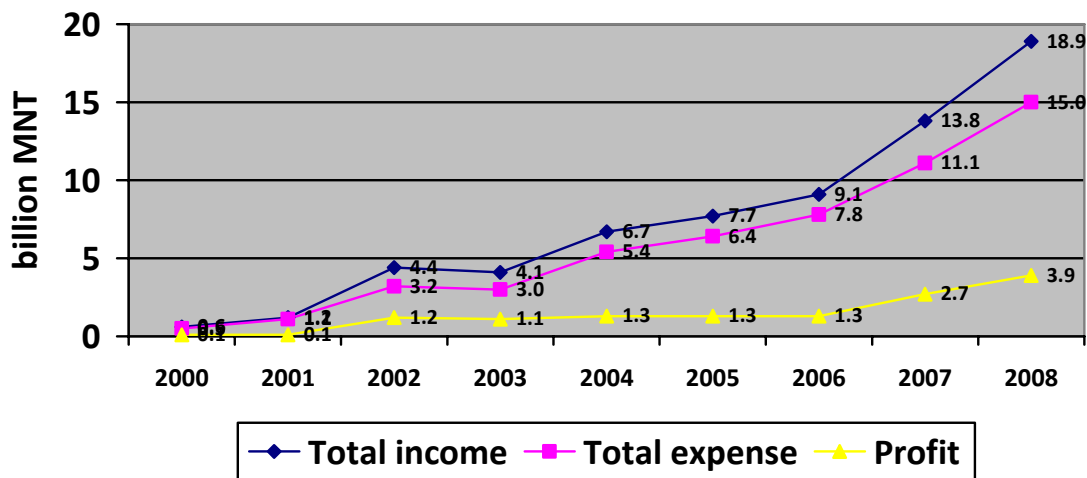
STRUCTURE OF THE LIABILITIES



To expand their operations, the NBFIs search for low cost bank loans, lending programs and project funds supplied by the IFIs, and other donors and trust service possibilities. Therefore, the amount of attracted funds reached MNT 16.5 billion, soaring by 37.5 per cent to 21 per cent of total liabilities.

6. Profitability

NBFI's INCOME, EXPENSE, PROFIT



In the reporting year, total income increased by 36.9 percent and total expenses went down by 35.1 per cent. As a result, the net income after tax increased by 44.4 percent or MNT 1.2 billion as compared to the last year.

The increase in income was mainly triggered by higher interest rates, total liabilities, loans disbursed and currency exchange income. Increases in expenses were caused by currency exchange losses due to the exchange rate volatility, HR related expenses, and other expenses.

Savings and Credit Cooperatives

At the end of 2008, 101 Savings and Credit Cooperatives operated in Ulaanbaatar city and 108 in provincial regions. Compared to the other institutions, SCCs cover a substantial area in provinces, reaching out to customers in outlying areas of the country.

Total assets of the SCCs were MNT 41.7 billion; with an income of MNT 12.7 billion and expenses of MNT 10.8 billion which means the aggregate profit of MNT 1.9 billion was the result of the 2008 operations of the SCCs.

The total of savings accounts has increased by 6.9 per cent compared to last year and reached MNT 27.7 billion. All of these funds were engaged in lending activity, so the total amount of disbursed loans was MNT 32.4 billion, which is 1.7 times greater than the figure for last year. Interest-bearing assets increased by 1.8 times, to MNT 35.1 billion, comprising 84.2 per cent of total assets.

The liquidity ratio equaled 8.8 per cent, whereas the prudential figure set by the Commission is 5 per cent.

1. Total assets of the SCCs

After the Law on the legal status of the Financial Regulatory Commission was passed in November 2005, the Cooperatives Law was amended so that savings and credit activities were to be run only with a special license issued by the Commission. The Commission has put in order

and re-licensed around 1000 SCCs, which were registered with the State Registration Office. From 2007, the Commission has been constantly receiving and consolidating SCCs' financial reports and performing off-site monitoring as part of risk-based supervision, by examining whether the Cooperatives are meeting prudential requirements. Thus, it makes it possible to compare financial consolidation figures at the end of two consecutive years.

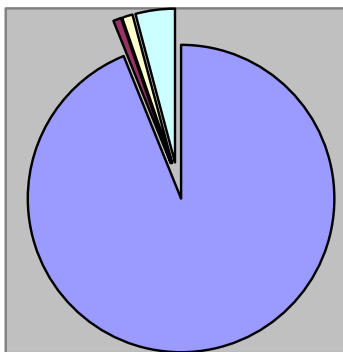
ASSET	Previous year	Year ending 2008
1.CURRENT ASSET	34,082,240.23	40,361,741.24
DEBT	13,600,161.35	7,109,734.04
CASH	18,037,539.10	30,653,312.20
RECEIPT	1,959,909.85	2,076,724.20
OTHER ASSETS	237,462.53	160,954.75
OWN IMMOVABLE PROPERTIES	247,167.39	361,016.05
2.NON-CURRENT ASSETS	1,545,366.05	1,338,597.63
MAIN ASSET	1,318,518.16	1,199,542.65
OTHER NON-CURRENT ASSET	226,847.89	139,054.97
TOTAL ASSETS	35,627,606.28	41,700,338.87

The SCCs' total assets increased by MNT 6.1 billion or 17.1 per cent compared to the previous year, and reached MNT 41.7 billion. This was supported by the rise of attracted funds or members' savings. Despite the average interest rate on loans offered by the SCCs increasing from 2.6 to 3.6 per cent, the risk-weighted net outstanding loans figure has increased by 70 per cent to MNT 30.6 billion. This explains the higher demand for loans from microcredit institutions, due to the drop in loan disbursements from the banks resulting from the tight monetary policy conducted by the Bank of Mongolia.

However, it can be criticized that about MNT 7.1 billion was not disbursed for loans, which equaled 17.0 per cent of total assets of the SCCs.

2. Loan portfolio quality of the SCCs

Quality of Loan Portfolio



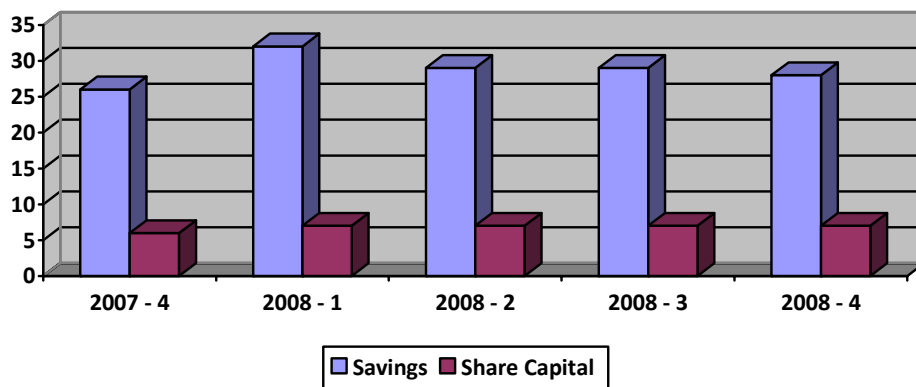
During the reporting period, disbursed loans were MNT 32.4 billion, which is MNT 13.1 billion larger than in the previous year. Non-performing loans (Loss, doubtful, substandard) have reached MNT 2.2 billion, which is 57 per cent higher than the previous year's MNT 1.4 billion. This was the basis for the increase in the provisions/expenses by 4.6 times, accounting for MNT 1.7 billion.

3. Liabilities and Equity

In the reporting year, SCCs have attracted more savings than in the previous year by MNT 1.9 billion, which is an increase of 6.9 per cent to MNT 27.7 billion in total; share capital increased by 18.4 per cent to MNT 7.7 billion; whereas other capital rose by 47.8 per cent to MNT 3.5 billion. This translates into the recovering reputation of the SCCs.

At the beginning of the year, the attracted savings were MNT 31.6 billion. This number has been falling consistently, showing the impact of the financial and economic crisis; peoples' drop in income; and increased savings withdrawals.

The ratio of members' savings to total assets is considered to be prudent at 80 per cent; this ratio was 66.4 per cent this year.



E. Further Implementation of the Policy Measures

The Government needs to provide appropriate policy support for the development of the microfinance sector in order to expand services for low income people.

Within the scope of improvement of the legal environment, the Commission has the task of amending laws, or drafting new laws, which promote new financial instruments and services. Laws should provide a suitable regulation mechanism and accountability system, and the Commission should produce new rules and regulations to be followed by microfinance institutions according to those laws.

Furthermore, the Commission has to work on implementing the recommendations given by the IFIs and introduce standards to improve the supervisory framework, strengthen governance and risk management, establish the industry database, and upgrade financial accounting and reporting systems.

The Commission tries to assist SCCs to receive program and project loans, with the aim of improving their financial liabilities. Attention has to be given to improving the capacity of the management and staff of microfinance institutions, along with the quality, efficiency and frequency of related workshops and training.

THREE. THE COMMISSION'S FINANCIAL ACTIVITY

In order to maintain a secure and proper working environment, the Finance and Administrative Department of the FRC has exerted its efforts within the framework set by the Law on State Budget, Law on Administration and Financing of the State Budget, Law on Legal Status of the FRC, Law on Civil Service, Law on Labor, Law on Accounting and other financial legal acts.

According to the allocation approved by the Ministry of Finance, the measures implemented by the FRC have been funded in the specified time, in accordance with the ratified budget under the Law on State Budget of 2008. These measures were implemented without delay of any activities and services due to financing issues.

During the reporting year, measures were undertaken to rectify misconduct revealed during the monitoring by the State Auditing Office, and measures have been implemented in accordance with the relevant recommendations.

In order to ensure the financial operation of the Commission consistent with the law, we released a financial report every quarter, and monitored it through the Internal Control Unit and other relevant authorities. In line with this, misconduct has been remedied and results submitted to the Ministry of Finance in the legally prescribed timeframe. To prevent the creation of new outstanding debts, the Commission has reconciled with Social Insurance of Chingeltei District, Taxation office, and other counterparties on a monthly basis. The FRC issues inventory censuses semi-annually and fixed assets have been fully depreciated to be delisted from the list of assets being discarded and regularly submitted to the State Property Committee.

Due to changes made to the methodology of “product based budgeting” under state financial and budget planning, the mid-term budget planning of the FRC for 2009-2011 has been developed with two programs: “Financial sector regulation” and “Financial Supervision”. Each program has four products, and was submitted to the Ministry of Finance in due time.

Based on a world market price survey, orders for technical devices, furniture and stationery necessary for maintaining the proper activities of the FRC were supplied to internal units of the Head Office. Measures have also been taken covering maintenance and repair.

In accordance with the resolutions carried out by the governmental authorities to reduce expenses on high fuel consumption vehicles to be used in state services, the FRC has handed over its Hyundai Elentra and Mercedes Benz to the State Property Committee, and transferred its Hyundai Terracan to the Psychiatry clinic from balance to balance. Moreover, the FRC has organized an auction of its Hyundai- Elentra according to applicable laws.

Pursuant to Government Resolution No.349 of 2007, order No. 23 of the speaker of Parliament, and resolutions No. 281 and 326 of 2008 issued by the State Property Committee, as a substitute the FRC has purchased a Sonata-6 from the Mongol Hyundai Kia Company, the official distributor of Hyundai & Kia Corporation. Also, by renewing its auto parking lots, the Commission was able to cut expenses on fuel and spare parts.

In 2009, the objective of drafting and compliance of a Policy document on Accounting of the Commission has not been accomplished.

1. The FRC Budget

The budget of the FRC was ratified at 487.2 million by ‘the 2008 State Budget Law’MNT, of which salary and bonuses were 283.0 million MNT, social security expenditures were 28.3 million MNT, and other current expenditures were 175.9 million MNT. Revenue of 255.0 million MNT was generated from the FRC’s operational revenue, and 232.2 million MNT was approved to be funded from the state budget.

Since April, due to an increase in the salaries of the civil services, amendment has been made by the Ministry of Finance about the FRC budget amounting to 558.4 million MNT. Salary and bonuses were 368.5 million MNT, social security expenditures were 36.8 million MNT, and other current expenditures were 153.1 million MNT. Of this, 255.0 million MNT consisted of income from activities and 302.4 million MNT was stipulated to be funded from the state budget.

As a result of an increase of 39.9 million MNT in the salary fund, personnel discount, and social security expenditures made by the state reconciliation in October this year, the total budget of the FRC has amounted to 620.6 million MNT. Of this, 302.4 million MNT was to be funded from state budget. Changes made in total assets of 318.2 million MNT to be generated in the state budget have been generated in the state fund and spent accordingly.

The allocated amount of 500 million MNT from the Development Fund of Mongolia, for the purpose of completing the construction work drawings, budgeting, and laying down of the building foundation of the ‘Center for Financial Education” at the FRC, has been changed to 100 million MNT by the Budget amendments.

Status of state reconciliation of FRC Budget

Indicators	Approved 2008	in	Reconciliation as of October, 2008	Differences
Expenses				
Salary	282,979.40		380,877.30	97,897.90
Personnel discount			19,263.20	19,263.20
Social Security	28,297.90		40,014.00	11,716.10
Stationery	11,000.00		11,000.00	-
Fuel and Transportation	23,487.50		23,487.50	-
Post and Telecommunication	20,560.00		20,560.00	-
Internal business trip	10,000.00		10,000.00	-
External business trip	14,956.60		14,956.60	-
Newspaper subscription	2,100.00		2,100.00	-
Trainings and internships	8,500.00		8,500.00	-
Expenses on furnishings	20,000.00		20,000.00	-
Charges and withholding taxes	10,560.00		10,560.00	-
Advertising	5,000.00		5,000.00	-
Current expenditure	7,100.00		7,100.00	-
Foreign Guests	800.00		800.00	-
Pension fund	16,000.00		17,900.00	1,900.00
International membership fee and donation	25,905.90		28,495.40	2,589.50
Total operating expenses	487,247.30		620,614.00	133,366.70
Investment	500,000.00		100,000.00	
Funding liabilities	487,247.30		620,614.00	133,366.70
Main activity income	255,000.00		318,249.60	63,249.60
State funding	232,247.30		302,364.40	70,117.10

Total employees	88	98	
Management	16	16	
Executive employees	72	82	

2. Income

According to the Law on Legal Status of the FRC, regulatory service fees are accumulated in a specific account generated from the regulated agencies of the FRC, and has been applied as one type of funding. The balances in the Savings Bank were transferred to Golomt Bank according to resolution No. 5-7a/4157 of the Director of Ministry of Finance of the Treasury Department.

The amount of regulatory service fees is generated taking into consideration the characteristics of each sector, forms of activities, and locations of intermediary participants. These fees totaled 550.2 million MNT throughout the fiscal year.

Another income component of the FRC consists of training for authorization of intermediary activities. A total of 57.5 million MNT was generated from activities applicable to laws such as interest income accounted for the stable balance of the deposits in banks.

During the state monitoring of financial institutions in compliance with the code of conduct, the FRC levied fines worth 16.6 million MNT imposed by state inspectors, which was transferred to state budget.

STATEMENT OF INCOME

/Million MNT/

Types of income	Net Income	Shares
Regulatory service fee	550,211,688	90.5%
Savings and Credit Cooperatives	17,172,180	2.8%
Securities companies	267,642,120	44.0%
Non-bank financial institutions	109,750,400	18.1%
Insurance companies	153,769,988	25.3%
Currency exchange bureaus	1,850,000	0.3%
Banking interest income	9,714,617	1.6%
Trainings	36,988,210	6.1%
Other expenses	10,800,210	1.8%
Total	607,687,725	100.0%

3.Outcome

From the allocated amount of 744.4 million MNT for funding of the FRC's main activities, the approved budget has been surpassed by 123.7 million MNT, of which 80 percent comprised expenses on investment and 4 vehicles, constituting an amount of 99.0 million MNT.

Savings from expenditure lines such as internal business trips at 7.5 million MNT, and training and internship expenses at 2.9 million MNT, were transferred to cover overspent budget such as stationery, post and telecommunication, fees and commission, with the approval of the Treasury Department of the Ministry of Finance.

In relation to purchase of 2 Bloomberg terminals with the objective of assisting changes in policy and decision-making through obtaining real-time financial market data, news feeds, and the placement of trades, the FRC has spent 12.6 million MNT on capacity building, and involved its staff in training at the Hong Kong branch of Bloomberg, which caused over expenditure on foreign assignments.

Following the recent rapid growth of the securities market, production and delivery of new products has led to some concerns in decision making. Hence, we have made a contract with the National Center of Law to monitor the Law on Securities to determine whether it is consistent with rapid market development, and transferred the prepayment accordingly. This has caused an over expenditure on Information and Advertising of 3.5 million MNT.

For the purpose of proper maintenance, the Commission has purchased computers and related equipment worth 14.2 million MNT, and 10.1 million MNT worth of furnishings and accessories. A fingerprint machine for attendance has been installed at a cost of 1.9 million MNT, to improve efficiency of duty on time.

The FRC has transferred 55.6 million MNT for the funding of the Financial Education and Information Center's blueprint and budgeting, and 1.2 million MNT for funding of research work on engineering and geology to Baldans and Jonsht-Uuls, LLCs out of the reflected 100.0 million MNT in the investment expenditure.

2008 Survey on State Performance

/MNT/

№	Items	Year 2008		Differences	Shares
		Planned	resulted	Amount	
1	Salary and bonuses	400,140,500.00	400,140,500.00	-	100.00
2	Social security expenditure	40,014,000.00	40,014,000.00	-	100.00
3	Stationery	11,000,000.00	12,864,730.00	1,864,730.00	116.95

4	Fuel and transportation	23,487,500.00	23,487,500.00	-	100.00
5	Post and telecommunication costs	20,560,000.00	24,774,980.00	4,214,980.00	120.50
6	Charges and withholding taxes	10,560,000.00	16,313,181.82	5,753,181.82	154.48
7	News and advertising	5,000,000.00	8,515,250.00	3,515,250.00	170.31
10	Internal assignment	10,000,000.00	2,479,761.93	(7,520,238.07)	24.80
11	Publishing	2,100,000.00	2,100,000.00	-	100.00
12	Purchase of furnishings	20,000,000.00	20,000,000.00	-	100.00
13	Current renovation	7,100,000.00	7,100,000.00	-	100.00
14	Expenses on trainings	8,500,000.00	5,620,270.00	(2,879,730.00)	66.12
15	Pension fund and premiums	17,900,000.00	25,072,855.00	7,172,855.00	140.07
16	External business trip	14,956,600.00	27,540,277.06	12,583,677.06	184.13
17	Foreign guests expenditure	800,000.00	800,000.00	-	100.00
18	Foreign transaction	28,495,400.00	28,495,398.37	(1.63)	100.00
19	Miscellaneous		7,080.62	7,080.62	
20	Current Expenditure	620,614,000.00	645,325,784.80	24,711,784.80	103.98
21	Investment		99,047,665.00	99,047,665.00	
	Total	620,614,000.00	744,373,449.80	123,759,449.80	119.94

4. Property and Capital

In 2008, total assets of the FRC increased by 181.3 million MNT, decreased by 112.6 million MNT, and in total amounted to 482.0 million MNT.

The FRC spent 99.0 million MNT on purchasing 4 vehicles (Sonata-6) from Mongol Hyundai Company, 25.4 million MNT on equipment and accessories, and 56.8 million MNT on the blueprint of the Financial Education and Information center and wages on research work on engineering and geology.

The decision was made to privatize 2 apartments worth 63.2 million MNT to their owners by the resolution No. 179 of the Government of Mongolia. Accordingly, the prices of these apartments were delisted from the balance sheet based on the approval issued by the letter # 2//1130 of 2008 from the State Property Committee to the State Housing Privatization Bureau.

Also delisted was the balance amount of 32.9 million MNT worth of three vehicles which were confiscated by the decision of State Property Committee, and computers, equipment and software worth 16.0 million MNT were discarded by the decree No. 443 of the FRC.

Assets	Initial balance	Transactions		Last balance
	Debt	Debt	Credit	Debt
Construction, and housing	116.4		63.7	52.7
Accessories of vehicles	91.1	99.0	32.9	157.2
Equipment and accessories (computer)	147.1	14.2	15.6	145.7
Furniture and furnishings	52.3	10.9	0.1	63.1
Other assets	2.1	0.3		2.4
Software	2.5	1.9	0.3	4.1
Other non-fixed assets		56.8		56.8
Total	411.5	183.1	112.6	482.0

2008 Financial Statement of FRC

/Thousand tugrugs/

INDICATORS	2007	2008
ACTIVITY INCOME		
Finance and subsidy income	296,417.1	359,164.4

Income of products and services	637,344.2	622,565.5
AMOUNT OF ACTIVITY INCOME	933,761.4	981,729.9
ACTIVITY EXPENSES		
Expenses related to employees	346,362.1	439,716.6
Expenses of products and services	208,892.4	190,276.2
Financing and subsidy expenses	67,595.4	53,622.9
AMOUNT OF ACTIVITY EXPENSES (II)	622,849.9	683,615.7
OUTCOME OF MAIN ACTIVITY	310,911.5	298,114.2
INCOME FROM NON-PRIMARY ACTIVITY	2.0	41.0
EXPENSES FROM NON-PRIMARY ACTIVITY		3,065.4
TOTAL OUTCOME OF ACTIVITY	310,913.5	295,089.8

BALANCE SHEET OF FINANCE

/Thousand tugrugs/

БАЛАНСЫН ЗҮЙЛ	2008.01.01.	2008.12.31.
ASSETS		
MONEY AND EQUIVALENT ASSET	812,920.0	542,648.3
RECEIVABLES	674.8	5,293.1
GOODS	8,271.5	21,874.9
FIXED ASSET	303,224.8	331,648.2
TOTAL ASSET	1,125,091.1	901,464.5
LIABILITIES		
Advanced income	513,003.5	64,600.1
Government contribution	612,087.7	836,864.4
TOTAL LIABILITIES AND NET ASSET/PROPERTY	1,125,091.2	901,464.5

STATEMENT ON MONETARY TRANSACTIONS

INDICATORS	Year 2008
MONETARY TRANSACTIONS OF MAIN ACTIVITY	
AMOUNT OF MONETARY INCOME FROM MAIN ACTIVITY	981,729.9
AMOUNT OF MONETARY EXPENSES FROM MAIN ACTIVITY	(1,080,062.6)
NET AMOUNT OF TRANSACTIONS OF MAIN ACTIVITY	(98,332.8)
MONETARY TRANSACTIONS ON INVESTMENT	
AMOUNT OF MONETARY INVESTMENT INCOME	2,395.0
AMOUNT OF MONETARY INVESTMENT OUTCOME	174,333.9
NET AMOUNT OF MONETARY INVESTMENT TRANSACTIONS	(171,938.9)
NET TRANSACTION OF FINANCING	
TOTAL NET TRANSACTION	(270,271.7)
Money and equivalent asset from the first balance	812,920.0
Money and equivalent asset from the last balance	542,648.3

STATEMENT ON NET ASSET/PROPERTY CHANGES

Indicators	Government fund	Re evaluation fund	Accumulated amount	Total amount of Government contribution
Remainder as of January 1st, 2008	357,743,693.58	0.00	254,344,017.50	612,087,711.08
Growth in re evaluation of fixed assets	8,809,590.46	0.00	0.00	8,809,590.46
Changes in Accounting principles	77,390,814.56	0.00	1,731,845.04	79,122,659.60
Outcome for the reporting period			295,089,760.29	295,089,760.29
Remainder as of December	289,162,469.48	0.00	547,701,932.75	836,864,402.23

THE COMMISSION IN 2009

By consolidating and analyzing the accomplishments in the scope of “Capital Market Development Year”, it can be said that although tasks that were planned were not fully accomplished, a good development trend has been established, and first steps have been taken towards reform. In order to continue the practice of dedicating “the current year” to implement something beneficial that was stated in the Commission Strategic Plan, the FRC announced 2009 as the year of “Enhancing financial education of citizens”. In relation to this, according to the plan, some actual changes are expected to be seen from boosting the financial education of the population according to the planned actions and programs in the coming year.

The FRC will cooperate with authorities in determining amendments to the relevant law ensuring the regulation of the financial sector in order to fulfill market requirements. The FRC will actively take part in drafting, submitting and approving necessary laws in line with market developments.

The FRC will use its best endeavors to carry out initiatives and duties which are stated in the Main Guideline for socio-economic development of Mongolia, Government Action Plan, and the Performance Agreement signed between General Budget Administrator, the Chairman of the Commission, and the Managing Director General (and the Head of Office) in their designated time frames.

The FRC will direct state regulatory actions to minimize financial crimes and breaches, disclose and improve reporting mechanisms, introduce the Code of Corporate Governance of Mongolia in the financial sector, strengthen ethics, responsibility and disciplines of financial market intermediaries.

The FRC will seek opportunities to improve the efficiency of the organization of the Commission Office in conformity with state service, ensure the quality of performance measures through standardization, enhance working conditions, build capacity of professional human resources, seek opportunities to standardize operations, and start to build the “Financial Education and Information Center” of the Commission.

By drafting a policy document on Accounting of the Commission in compliance with the financial activities, the FRC will tighten financial discipline and will not repeat the over expenditure on state budget as prescribed in the law, and will work without causing outstanding debts.