

2017 ANNUAL STATEMENT OF “CREDIT BANK” LLC

Brief introduction of the bank (mission, vision, and values)

The Credit Bank was established by the resolution 503 of the President of the Mongol Bank, dated December 19, 1997, and inaugurated its operations on April 10, 1998; hence for the 20th year, steadily operating in the banking sector of Mongolia, strengthening our position, and delivering fast and quality services to our customers.

Credit Bank is 100% foreign-invested bank, and it is owned by “Harshal Holdings Limited” LLC from Cyprus.

VISION:

Provide customers with quality service and products based on modern technology, increase shareholders profit, develop bank employees.

Assist in the growth of Mongolia's economy and development of individuals and legal entities.

MISSION:

Be the leading bank with a high technology to achieve customer satisfaction, assist in the growth of Mongolian economy, honor discipline and eco environment.

VALUES:

- Competent personnel
- Customer
- Trust
- Continuous development
- Union

The policy implementation within the framework of Client protection and perform its obligations in concerning the Customer.

Since its establishment, the Credit Bank has been honoring its clients and interests and been striving to reflect their interest in our operations. Therefore, the Clients are the “Valuables” of the Credit Bank.

It is our obligation to become a well respected and reliable financial partner by serving clients swiftly, following ethical principles, protecting the client information, and respecting their interests in order.

The appeal of the Credit Bank is “Building Confidence Together”, and we operate based on the trustful relationship between our clients, partners, bank executives and employees of the bank.

The policy implementation of the sound banking governance .

The Credit Bank endeavors to adhere the sound governance practices, and business ethics in its operations, rigorously follow the “Regulation to implement sound banking governance” and “Guidelines to accomplish a regulation to implement sound banking governance” approved by the President of the Bank of Mongolia by resolution No A-151, dated September 30, 2014, and constantly submits corresponding statements and information to the Bank of Mongolia.

By implementing sound governance principles:

- satisfying the requirements of having transparent banking operation
- strengtning legal principles of bank operations
- establishing long-term development base by separating the rights and responsibilities of the Management- Regulation-Execution of the banking operation.

We regularly publish services, products, operations, executive management, BoD, and bank organizational structure information on the website as part of the transparency principles. Bank financial and other mandatory information published on the bank website, and announced to the public via mass media instruments.

Major changes in the business operations and explanations

In 2017, the bank paid close attention to fulfilling requirements of the Bank of Mongolia, improving the quality of the customer service, renewing the conditions of the bank products and services, and maintain the quality of loan portfolio.

Bank operation resulted in 142.1million MNT net profit in 2017.

2017 financial results are shown in the following table:

Table №1

Million MNT

FINANCIAL INDICATORS	2016-12-31	2017-12-31	CHANGES
Current assets	6,808.1	6,365.2	-442.9
Securities	5,298.0	7,191.3	1,893.3
Loan	4,103.5	2,583.0	-1,520.5
Other current payables	136.9	306.2	169.3
Properties	882.9	943.5	60.6
ASSETS	17,229.4	17,389.2	159.8
Current accounts	160.0	181.4	21.4
Unlimited term savings	76.6	76.1	-0.5
Limiter term savings	18.8	62.5	43.7

Other non currents	16.8	19.5	2.7
Equity fund	20,090.0	20,090.0	-
Growth upon re-valuation	396.7	396.7	-
Accumulated profit, loss	-3,553.6	-3,455.6	98.0
Reserve fund	24.1	18.6	-5.5
TOTAL OF LIABILITIES AND EQUITY	17,229.4	17,389.2	159.8

2017 Income statement of Credit BankTable №2
Million MNT

Indicators	2017
Income	
Interest income	1,643.3
Other income	503.3
Total income	2,146.6
Expense	
Interest expense	6.4
Operating expense	1,868.6
Non-operating expense	127.7
Total expense	2,002.7
Total profit	143.9
Provident fund	-1.8
Net profit/(-)loss	142.1

Bank risk management statement

The purpose of the Credit Bank Risk Management Department operations is to identify potential risks of the bank operation, adequately manage, reduce, and prevent identified risks. The department is an independent unit, which operates under the direct management of the Chief Executive Officer and during the stated period conducted monitoring activities in following direction and stated to the Executive Management, Risk Management Committee of the BoD and Risk Management Committee of the Active and Passive:

- Monitor within the extent of approved risk limits, implement adequate risk management structure within the responsibilities taken in front of the BoD, shareholders, and all clients of the bank;
- Measure, evaluate, identify, and statement the potential financial, market, liquidity, credibility, operational, legal, and reputational risks that may pose to banking operations;
- Control the implementation of the Risk management policy, rules, and regulations, improve, and adhere accordingly;
- Cooperate with Credit division and Legal department to reduce, monitor, and have paid overdue and non-performing loans;

Financial risks

Within the framework of the banking financial risk management monitoring the indicators of capital adequacy, profitability, liquidity risks and issuing corresponding statements and conclusions to the management and corresponding committee meetings.

Capital adequacy:

In 2017 bank fully satisfied the capital adequacy indicators ratio requirements set by the Bank of Mongolia:

Table №3

№	Capital adequacy ratio	2015	2016	2017
1	Capital to Risk Weighted Assets Ratio > 12%	195.32%	130.50%	151,64%
2	First tier capital to risk weighted assets ratio > 6%	189.07%	127.44%	148,11%
3	Leverage ratio > 7%	72.29%	96.11%	95.8%

Profitability:

As of December 31, 2017, the bank operated with 142,1 million MNT net profit, therefore, the bank profitability indicators Return of Asset and Return on Equity, net profit, and the net margin reached following results.

Table №4

№	Profitability indicators	2015	2016	2017
1	Return on Asset	0,05%	3,22%	0,82%
2	Return on Equity	0,06%	3,28%	0,83%
3	Net profit	0,41%	13,57%	4,44%

Liquidity risk:

Table №5

№	Prudential ration indicators	2015	2016	2017
1	Liquidity ratio > 25%	257.5%	4,028.2%	3,843.5%
2	Current (quick) ratio	6,097.7%	4,764.4%	4,422.1%

In 2017 bank continuously satisfied liquidity risk indicators of the liquidity ratio, current ratio, and mandatory reserve indicators set by the Bank of Mongolia.

Market risk

Within the market risk framework, the department identifies and monitors the risks of interest, the risk of price, and risk of exchange rate fluctuation. To prevent from market risk the department conducts a survey on the general economic situation, potential changes in the macro and micro-economic environment and statements to the executive management and the Risk Management Committee of the BoD.

Exchange rate risk:

In 2017 the bank continuously satisfied the Net open foreign currency position requirement for all and every currency units criteria set by the Bank of Mongolia.

Table №6

№	Foreign currency position indicators	2015	2016	2017
1	Foreign currency open position ratio /each currency < +/-15%/	1.66%	14.19%	14.5%
2	Foreign currency open position ratio /all currency < +/-40%/	2.11%	37.69%	35.1%

Interest risk:

To identify the interest rate risk Risk Management Department performs interest sensitive assets and liabilities analysis, net interest difference ratio, break-even point analysis and statement the results to the corresponding committee meetings.

Price risk:

Although the bank does not hold risk-prone financial instruments on its balance sheet, throughout 2017, we constantly monitored the market fluctuations of the collateral real estates and increases and decreases of the price, and relevant conclusions were timely delivered to the corresponding meetings of the committees.

Credit risks

In the field of the credit risk, the Risk Management Department operates generally in two main directions to identify the unit credit risk and control the quality of loan portfolio.

Within the loan portfolio quality framework the department is conducting monthly activities of monitoring the conformance of bank's loan policy, the performance of the loan limits set by the Bank of Mongolia, and the quality of the loan portfolio.

Cooperated with Legal Department and the Credit Divisions to recover the overdue and non-performing loans, and supplied the management team with weekly statements.

In 2017 bank fully satisfied Credit policy and the prudentiality ratio requirements set by the Bank of Mongolia.

Table №7

№	Prudential ratio indicators	2015	2016	2017
1	Single loan to asset ratio < 20%	0.76%	0.64%	0.46%
2	Related (shareholders, employees, and other related parties) party loan to asset ratio total/<20%, single loan <5%/	0.92%	0.40%	0.12%
		2.37%	0.83%	0.42%
3	Top 20 loan to total credit ratio < 50%	24.93%	30.38%	33.48%

Other risks

The risks of the banking operations, legal and reputational risk factor analysis constantly conducted in accordance with the applicable rules and regulations, and the overall conclusions of the risk assessment presented to the Executive management every month. In 2017, no significant risks and loss encountered within the risk factors stated above.

Other risk management operations

- Developed a policy document of the Risk appetite declaration and Risk appetite structural document.
- Conducted the assessment of the Governance of the Risk Management structure of the Credit Bank.
- Organized Risk Management Committee meetings in accordance with the 2017 plan and distributed the minutes of the meeting and its resolutions to the members every-time.

Information technology operations statement

In 2017, performed several actions of renewing the server hardware to improve the reliability and security of the information technology network of the bank, renovating the core banking software to ensure information security, implementing a new software system for internal operations, and improving the use of the software systems.

The interbank gross settlement transactions software was upgraded to support the ISO020022 standard to send the transaction to the IBAN (according to international standards) account. Furthermore, implementing the IBAN client account support.

Human resources policy implementation

Following the principle of establishing the professional and skillful human resources base, employees recruited in by transparent announcement and selection. For this purpose, the bank announces via its website and social network, and cooperates with a job site as well. Throughout 2017 for five open positions, run 10 public announcements and out of all applications, 120 applicants passed first-level screening and advanced to written examination and interview round. As a result, 13 people were hired, out of it 5 resigned within the experimental period, 7 employees signed labor contract, and 1 person signed limited time contract.

In 2017 our employees actively participated in training organized by the Mongolian Bankers Association and other professional organizations. Accordingly, 31 employees attended 13 training, 6 employees in 3 seminars, and 38 employees participated in 33 meetings and discussions. The bank covered the fee for eight employees to attend seven paid training. Moreover, successfully conducted

the number of training in information security and anti-money laundering and terrorism financing internally, to improve the employee knowledge.

In 2017, nine employees resigned, from which two people are studying abroad at their expense to improve their qualifications.

During the stated period employees were constantly compensated with the discounts, benefits, and compensation in accordance with the Benefits and remuneration regulation of the Credit bank, yearly operating results' bonus for 2016 and quarterly bonuses were remunerated twice to support motivation.

Company Social Responsibility and Sustainable Finance Initiative performance

Within the stated period the bank performed following activities within the 8 frameworks of the Sustainable Finance Initiative.

Protect the environment:

As part of the SF policy of the Credit bank shall not support the financial activities harmful to the environment, and developed ES risk assessment manual and guideline to conduct the environmental and social /ES/ risk assessment on credits, especially on four specific industries, which is currently under internal review.

Human rights, and social protection:

As clearly reflected in the SF policy, besides priority serving the disabled, pregnant, and elderly clients without the queue, entrance ways renovated to fit the wheelchair.

Protection of cultural heritage:

As stated in the Credit bank SF policy, create an internal culture and concept to protect the cultural and historical heritage of Mongolia, and adhere the principle to avoid financing activities that destroy cultural, and historical heritage, contraband out of Mongolia, and any activity that is prohibited by the international conventions and agreements on protection of historical and cultural heritage.

Support Green economy growth:

As declared in the SF policy of the Credit bank, the bank offers the most comfortable loan condition for the vehicle purchase loan to purchase the HYBRID engine vehicles, to support the reduction of air pollution. Every year we organize three planting, and maintenance activities including all of our employees, grow green plants in the interior and exterior of the bank office and create a green area in the surrounding space.

Support financing accesibility:

As reflected into the SF policy of the Credit bank, publish a SF Logo on the bank website, and place and update the SF related new information on the internal e-office information system database, actively participate the training, seminars, discussions, working group meetings and other activities organized by the SF association by actively assigning employees.

Support of ethical financing and good governance:

As defined in the Credit bank SF policy, the bank shall not finance activities with unethical and criminal characteristics and activities included in the "Prohibited list"; besides, adhering a policy to encourage sound practices of the corporate governance.

Support the transparency and responsibility:

As clearly written in the SF policy of the Credit Bank, the bank shall fully adhere a transparency requirements of the banking operations, perform banking operations in compliance with the "Sound banking governance implementation regulation" and its appendixes, and timely produce and issue the performance statements.

Leadership:

As it is explicitly declared in the SF policy of the Credit Bank, the bank shall constantly monitor its electricity consumption, adopt energy efficient lights, establish green zone around the bank office, and plant greeneries inside and outside the office; moreover, take measures to reduce the heat loss, and water consumption, and to reduce the use of paper shifted to the electronic receipt system by the resolution of the Chief Executive Officer.

Within the company social responsibility framework, in 2017 the Credit bank signed a cooperation agreement with the Plekhanov Russian University of Economics, successfully organized series of trainings on topics of Overview of the Mongolian banking sector, Introduction of Credit bank, and How to deal with the money for the students of the university and the high school.

Moreover, actively participated the programs announced by the Bank of Mongolia, such as “Adequate use of banknotes”, “Supporting the savings accumulation”, “Promoting financial education”, by developing participation plans and implementing accordingly. Besides the training organized under the cooperation agreement, arranged a series of online training for the employees. Also prepared information, manual, and video clips dedicated for the public education and distributing these through the bank website, public promo-screens and social networking sites. Within the framework of the savings support program announced an incentivized campaign of savings products with a cash and entertainment rewards.

Foreign and local branches count, locations, and operations information

The Credit Bank operates in its central office building. Performing the foreign transaction services of our clients via the banks in Russian Federation and South Korea.

THE CHIEF EXECUTIVE OFFICER OF THE “CREDIT BANK” LLC A.S.KRAVTSOV