Analyzing Financial Statements

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Financial Valuation: applications and models / James R. Hitchner;
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ABSTRAKT

Hlavním cílem analýzy účetní závěrky je rozbor jejích minulých a současných položek, proto je tato analýza postavena na informacích plynoucích z účetnictví. Znalost účetních pojmů je pro pochopení této práce nezbytná.

Ve většině případů je účetní závěrka hlavním a jediným dostupným zdrojem informací o podnicích. Z tohoto důvodu se analýza účetní závěrky hojně využívá. Při analýze účetní závěrky se používá nespočet nástrojů a technik s ohledem na zkoumanou firmu a předmět zájmu. Tato práce je zaměřená na ty nástroje a techniky analýzy účetní závěrky, které běžně využívají ti, kteří činí rozhodnutí – věřitelé, investoři, regulátoři a manažeři.

Tato bakalářská práce se zabývá finanční analýzou společnosti *Trade and Development Bank s.r.o.*

Klíčová slova: finanční analýza, srovnávací analýza, vnější podklady, vnitropodnikové podklady, podklady z daného odvětví, horizontální analýza, vertikální analýza, poměrná analýza,

ABSTRACT

Overall objective of financial statement analysis is to examine past and current financial statement data, and accordingly it is fundamentally based on accounting information. This work is formed for a person who is familiar with accounting terms.

In most cases, only accessible and primary source of information on companies is *financial statements*. Therefore, financial statement analysis is practically the most broadly used. Numerous analytical tools and techniques of financial statement analysis are used in accordance with particular objectives of analysis and features of a given company. This work focuses on the tools and techniques which are commonly used by all decision makers such as creditors, equity investors, regulators and managers.

This bachelor thesis deals with the financial analysis of a company, *Trade and Development Bank LLC.*

Keywords: financial analysis, comparative analysis, intra-company basis, intercompany basis, industry average basis, horizontal analysis, vertical analysis, ratio analysis.

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DECLARATION OF ORIGINALITY

I hereby declare that the work presented in this thesis is my own and certify that any secondary material used has been acknowledged in the text and listed in the bibliography.

May 2, 2009

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INTRODUCTION

Every phase of commercial activities is recorded in terms of figures. Those figures are interpreted by professionals to make all business decisions considering every aspect of business operations. Therefore, analyzing financial statements is the most useful and important knowledge for every businessman in modern world. In other words, every person who engaged in a business must have ability to analyze and interpret financial statements. As importance of the knowledge of analyzing financial statement and I were working as an accountant, I have preferred this topic.

In fact, theoretical description of financial statement analysis is written in thousands of financial books. The most commonly used *vertical and horizontal analysis* and *ratio analysis* are, however, written very briefly or incompletely in those books. Likewise, instructions about a practical application of financial statement analysis are very rear.

The aim of this work is to profoundly explain the most widely used basic tools and techniques of financial statement analysis in theoretical point of view and as well as to provide a practical application of those tools and techniques.

In the practical part, I included the financial statement analysis of *Trade and Development Bank LLC.* A reason why I have chosen this company is that my aspiration is to work as an accountant for this most prestigious company in Mongolia. One more reason for choosing this bank is that I have 3 years of work experience in banking operations.

Difficulties which I experienced in the course of my analyzing process were to determine drawbacks of the company due to its high level professionals and their highly performances.

I. THEORY

1 CHARACTERISTICS OF FINANCIAL STATEMENT ANALYSIS

Financial statement analysis is a process that surveys past and current accounting information and its purpose is to derive estimates and inferences useful in business and investment decisions. Specifically, it is used for evaluating performance and estimating future risks and potentials. It is, thereby, an essential skill in a variety of occupations including corporate finance, commercial lending and investment management etc.

In a practical comprehension, parties such as investors, creditors, managers and owners of businesses are basically interested in three characteristics of a company: solvency, profitability and liquidity. To determine those characteristics of a company, analysts must apply comparative techniques. In other words, analysts must examine relationships among financial statement elements and make comparisons with other relevant financial information.

1.1 Financial statements

Financial statement analysis is all about using accounting information. Main source of the information for financial statement analysis is financial statements. There are four primary financial statements: *balance sheet, income statement, statement of cash flows* and *statement of stockholders' equity*.

Balance sheet is a summary of a business' financial condition at a specific moment in time. More specifically, it represents a concept of what a company owns and owes. Furthermore, it is the most useful and important report that portrays a company's financial position as a whole. That statement has three sections: *assets, liabilities* and *ownership's equity*. Difference between *assets* and *liabilities* is known as equity of a company. According to *financial equation, ownership's equity* must equal *assets* minus *liabilities*.

The purpose of *income statement* is to show how profitable a firm has been over a given period of time. It reports on an amount of revenues or gains and expenses incurred during an accounting period. One specific feature of *income statement* is that it represents a specific period of time. In contrast, *balance sheet* represents a single moment in time.

Statement of cash flows provides information regarding all *cash inflows* (a company receives from its ongoing operations and external investment sources) and as well as all *cash outflows* (a company pays for its business activities and investments during the accounting period of time). The *statement of cash flows* is not usually used for *horizontal analysis, vertical analysis* and *ratio analysis*. The statement consists of three sections: *cash* *flows from operating activities, cash flows from investing activities* and *cash flows from financing activities*. The section of *cash flows from operating activity* is listed first in the *statement of cash flows*, and it shows how much cash a company generated from its core business. The *cash flows from investing activities* section shows an amount of cash a company spends on investments and receives from investments. The final section, *cash flows from financing activities*, includes any activities that involve a company's owners or creditors such as issuances or purchases of common stock and dividends paid to investors etc.

Statement of stockholders' equity displays individual components or elements of stockholders' equity, and it reports changes in stockholders' equity during the financial period. That statement does not involve useful financial information of a company's solvency, efficiency and liquidity. Thereby, this statement is not usually used for basic tools of financial statement analysis. The major elements of stock holders' equity include *common stock*, *preferred stock*, *retained earnings* and *foreign currency translation gains and losses*.

1.2 Comparative analysis

Executing a financial statement analysis, it is necessary to use comparative techniques. A financial statement quantitatively shows a company's financial position as of a given in time. It means one financial statement alone does not show adequate information. For instance, it is impossible to know how much increase or decrease took place in values of a specific item of balance sheet over current years. To obtain such information, it is necessary to compare one financial statement data with another financial statement data. The most popular comparative techniques are *intra-company basis, intercompany basis* and *basis of industry averages*.[1]

The *intra-company basis* is comparisons within a company between same items or relationships in one or more years. Intra-company comparison is useful to detect changes in financial relationship and trends within a company.

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[1] Jerry J. Weygandt et al., *Hospitality Financial Accounting* (New York: John Wiley & Sons Press, 2008), 207.

The *intercompany basis* analysis compares an item or financial relationship of one company to the same item or relationship in other one or more competing companies. The intercompany comparisons provide insight into a company's competitive position.

The *basis of industry averages* compares an item or financial relationship of a company to industry averages published by financial organizations. This basis indicates that how well is a company's relative performance within the industry.

2 TOOLS OF FINANCIAL STATEMENT ANALYSIS

Numerous tools are used to examine financial statements for a purpose of acquiring specific information regarding activities of a business. Three commonly used tools are *horizontal analysis, vertical analysis* and *ratio analysis*.

2.1 Horizontal and vertical analysis

Horizontal analysis, also called *trend analysis,* is a tool that is performed with analysis of year-to-year changes in items of financial statements. Its purpose is to determine whether an increase or decrease has taken place in the items. The analysis is used primarily in intra-company comparisons. *Horizontal analysis* has an advantage of presenting changes in amounts as well as in percentages. In some occasions, however, a few clarifying rules should be considered. To retain a proper perspective and to make valid inferences on the relative importance of changes, changes should be expressed only as an amount or only as a percentage. For instance, 60 per cent change from a base figure of 500 dollars is generally less significant than the same per cent change from a base of 500,000 dollars. In addition, when a negative amount appears in either a base year or the next period, it is not computed a meaningful per cent change. If an item has no value in a base year or preceding year, also no percentage change can be computed.

Vertical analysis is a tool that compares items within a financial statement and is performed with evaluating each item within a financial statement as a per cent of a base amount. In other words, it examines the proportions comprising particular subgroups or categories of a financial statement. For instance, analysts might evaluate how many per cent of *total assets* are *long term assets* or what proportion of *total assets* is comprised of *current assets*. The purpose of this analysis is to show the relative size and also changing proportions of components within particular financial statement categories. *Vertical analysis* is used primarily in *intercompany basis* comparisons to compare with similar companies' financial structure of the statements. This analysis is also called *common size analysis* because it makes easy to compare companies which have different sizes.

2.2 Ratio analysis

Ratio analysis is the most popular and widely used tools of financial statement analysis. It is used to evaluate financial condition and performance of a business by calculating financial ratios, comparing them to *industry averages* and tracking trends in the ratios over a given period of time. In other words, it is used in *intra-company basis*, *intercompany basis* and as well as *industry average comparisons*. Many software programs today are written specifically for financial statement analysis including ratio analyses. Even though computation of a ratio is a simple arithmetic operation, its interpretation is far more complex. To be meaningful and correct, a ratio must refer to an economically and logically important relation of financial items. Moreover, usefulness of a ratio analysis depends on an analyst's skillful interpretation, and it is the most challenging aspect of ratio analyses. Over sixty ratios are used by financial institutions nowadays. The *ratio analysis* can be used to assess generally three significant qualities of a company: liquidity, profitability and solvency.

2.2.1 Liquidity ratios

Liquidity ratios are a measure of *short-term liquidity* or a firm's ability to meet any short-term financial obligation such as interest, rent and other short-term liabilities. Several ratios are applicable in assessing *short-term liquidity* of a firm. *Liquidity ratios* are the most interested to suppliers and banks. The commonly used *liquidity ratios* are *current ratio, quick ratio, cash ratio, receivables turnover* and *inventory turnover*.

Current ratio reflects a company's ability to meet its possible short-term financial obligations. The greater the current ratio, the greater a company's ability to satisfy its current financial obligations. It is computed by dividing *current assets* by *current liabilities*.[2] The *current assets* includes *cash, cash equivalents, accounts receivable, inventory*, portion of *prepaid accounts* which will be used within a year and *short-term investments*.

Table 1 Formula of *current ratio*

$$\textbf{Current ratio (CR)} = \frac{\textbf{Liquid assets}}{\textbf{Current liabilities}}$$

Quick ratio is a more strength test of *short-term liquidity*, and it employs only the most liquid *current assets* such as *cash, short term investments* and *accounts receivable*. Some

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[2] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 35.

analysts assess and include some portion of *long-term receivables* into *short-term assets* by estimating the length of time needed for conversion of *long-term receivables* to cash. This ratio is computed by dividing difference between *current assets* and *inventory* by *current liabilities*.[3] It omits *inventory* from the *short-term assets* available to cover current liabilities as considering the potential cash flow from inventory is uncertain.

Table 2 Formula of *quick ratio*

$$\textbf{Quick ratio} = \frac{\textbf{Current assets} - \textbf{Inventory}}{\textbf{Current liabilities}}$$

A company with sound business and good profits can face financial problems or even bankruptcy if its short term cash flow is not managed aptly to address unexpected costs or deferred cash receipts. Accordingly, the *cash ratio*, also called *current cash debt coverage ratio*, is prominent to value the possible threat. It measures a company's ability to satisfy short-term debt on a cash basis. Its formula is total value of *cash and cash equivalents* and *marketable securities* divided by *current liabilities*.[4]

Table 3 Formula of *cash ratio*

$$\textbf{Cash ratio} = \frac{\textbf{Cash and cash equivalents + Marketable securities}}{\textbf{Current liabilities}}$$

Receivable turnover ratio measures how many times *account receivables* are collected during a financial period. The receivables are interest-free loans of a company to its clients. In case a company's *receivable turnover* ratio is low, it means the company uses its assets inefficiently. In other words, a low *receivable turnover* ratio implies that a company should reconsider and change its credit policy. Its formula is *net sales* divided by *average*

[3] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 35.
[4] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 35.

receivable.[5] The *average receivable* is equal to the beginning receivables plus ending receivables divided by two.

Table 4 Formula of *receivable turnover* ratio

$$\text{Receivable turnover ratio} = \frac{\text{Net sales}}{\text{Average receivable}}$$

Inventory turnover ratio indicates liquidity of inventory. In other words, it measures how many times a company's inventory is sold and replaced during a financial period. *Inventory turnover* is calculated as *cost of goods sold divided* by *average inventory* for a given period of time.[6] *Average inventory* equals the beginning inventory plus ending inventory divided by two. Some analysts calculate *inventory turnover* ratio as *net sales* divided by *inventory*. In generally, a high *receivable turnover* ratio represents sound inventory management and profit for a company.

Table 5 Formula of *inventory turnover* ratio

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

2.2.2 Profitability ratios

Profitability ratios assess that how efficiently a company uses its assets and controls its expenses to generate an acceptable benefit. The benefit is operating earnings that are left over after expenses. The popular variants of the profitability ratios are *net income margin, asset turnover, return on assets* and *return on equity*.

Net income margin or also called *net profit ratio* is calculated by finding a net profit or net income as a percentage of a revenue or sales. In other words, it is computed by dividing

[5] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 33.

[6] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 33.

net income by *net sales*.[7] It is an indicator of a company's pricing policies and its ability to control costs. When a company's *net income margin* is high, the company has low risk that a decline in sales will result in a net loss. On the contrary, if a company has a low *net income margin*, that indicates its expenditures need to be under control in a more efficient and profitable manner.

Table 6 Formula of *net income margin*

$$\textbf{Net income margin} = \frac{\textbf{Net income}}{\textbf{Net sales}}$$

Total asset turnover is a measure of how efficiently a company uses its assets and how much money a firm gets out of resources employed in it. This ratio is computed as *net sales* divided by its *average total net assets*.[8] *Average total net assets* is equal to the beginning assets plus ending assets divided by two. The resulting number by itself is not informative. This ratio must be compared with internal historical data, external data from competitive companies and as well as its industry averages. The result of this ratio should be about its industry averages. If *total asset turnover* is much high respectively to its industry averages, it may indicate that too few assets for its operating activity are being used relative to its actual need. When a company has much lower *total asset turnover* than its industry averages, it may indicate that too many assets are being used for its operating activity relative to what is needed.

Table 7 Formula of *total asset turnover*

$$\textbf{Total asset turnover} = \frac{\textbf{Net sales}}{\textbf{Average total net assets}}$$

Return on assets is a measure of how efficiently a company uses its assets and how much income a company gets out of resources employed in it. The ratio is calculated as

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[7] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 31.
[8] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 34.

dividing *net income* by *average total assets*.[9] Its industry averages vary considerably among different industries. For example, mining companies require large initial investments, so that it will generally have lower *return on assets* during its beginning years.

Table 8 Formula of *return on assets*

$$\text{Return on Assets (RoA)} = \frac{\text{Net income}}{\text{Average asset}}$$

Return on equity is a measure of how efficiently a company uses its stockholders' investment and how much profits a company gets out of money shareholders have invested. The ratio is equal to *net income* divided by *average total common stockholders' equity*[10]. It is expressed as a percentage.

Table 9 Formula of *return on equity*

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Average total common stockholders' equity}}$$

2.2.3 Solvency ratios

Solvency ratios focus on capital structure of a company and its long-term risk management. These ratios assess a company's ability to meet its long-term obligations. Thereby those ratios' results are useful facts for companies to make right decision to remain solvent and avoid bankruptcy. Commonly used ratios are *debt to total capital ratio* and *times interest earned.*

Debt to total capital ratio, or *total debt ratio,* measures a percentage of a total capital provided by creditors. Its formula is *total debt* divided by *total capital*.[11] The higher this ratio, the less protection is for creditors of a business.

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[9] Jerry J. Weygandt et al., *Hospitality Financial Accounting* (New York: John Wiley & Sons Press, 2008), 218.
[10] Jerry J. Weygandt et al., *Hospitality Financial Accounting* (New York: John Wiley & Sons Press, 2008), 219.
[11] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 36.

Table 10 Formula of *debt to total capital* ratio

$$\textbf{Debt to Total Capital (DTC)} = \frac{\textbf{Total debt}}{\textbf{Total capital}}$$

Times interest earned is determined as *earnings before interest and taxes* (EBIT) divided by *interest expense*.[12] This ratio indicates how many times a company can cover its interest charges on *earnings before interest and taxes* basis. A high ratio could indicate that a company has a lack of debt. A low ratio indicates that a company could possibly fail to meet its financial obligations.

Table 11 Formula of *times interest earned* ratio

$$\textbf{Times Interest Earned (TIE)} = \frac{\textbf{EBIT}}{\textbf{Interest expense}}$$

[12] Peter A. Hunt, *Structuring Mergers & Acquisitions: A Guide to Creating Shareholder Value* (Amsterdam: Aspen Publishers, 2004), 37.

3 LIMITATION OF FINANCIAL STATEMENT ANALYSIS

Financial statement analysis and its tools are highly functional in assessing companies. The analysts, however, need to contemplate its limitations. Financial statement analysis is primarily based on financial statements of a company. Thereby, many potentially consequent factors, such as economic and political factors, are not deliberated in the financial statement analysis. Some of the limitations include as below:

a) Financial statement analysis uses data from financial statements, past operations of a given company. Past financial performance is not a good predictor of what will happen with an analyzed company in future. The financial statement analysis will give only a crude indication about a company’s trend. To have a more precise prediction, an analyst has to rely on more sophisticated supplemental information.

b) Financial statements involve numerous estimates in allocating costs to each period. Those estimates are inaccurate in allocating costs such as periodic depreciations and loss from uncollectable receivables.

c) Cost principle is used to prepare financial statements. It means all items in financial statements are recorded by their historical costs. Financial data are not adjusted for price level changes since they are recorded first time.

d) Companies can choose one of the accounting methods, for example, inventory *Last-In, First-Out* (LIFO) or inventory *First-In, First-Out* (FIFO) methods. These differences may hamper to compare data of companies if they use not same methods. In some cases, this difference would significantly distort the *current ratio* analysis.

e) If a company's business is seasonal, fiscal year-end data may not be representative of data of a company’s financial accounts during relevant accounting year. Items such as *cash*, *receivables* and *inventory* are changed dramatically according to its industry cycle in the most cases.

f) Nowadays, a lot of companies are remarkably diversified. Diversified companies are difficult to classify into a particular economic sector for comparison purposes.

II. ANALYSIS

4 CHARACTERISTICS OF *TRADE AND DEVELOPMENT BANK*

Trade and Development Bank (TDB) is the oldest commercial bank of Mongolia. Since TDB was founded in 1990, it has been a major player in the financial and banking markets of the country as well as a major contributor to the economy. TDB holds the rare distinction of being voted “Best Bank in Mongolia” two times in a row by The Banker journal and was awarded “Best Bank of the Year”, “Best Business Entity for its Social Responsibility”, “Best Tax payer” and many more by different international and local organizations.[13] The internationally well known rating agency Moody’s Investors Service did a rating for TDB. This rating enabled TDB to become the first ever Mongolian corporation to tap the international public debt market with an inaugural issuance of US 75 million in three year bonds under a USD 150 million medium term note program. Moreover, in that year TDB became the first bank in the Mongolian banking sector whose total assets reached half trillion MNT representing 20 per cent of the total banking market.

Table 12 Total assets of the biggest nine banks by the end of 2007

Bank names	**Total Assets *\/MNT billion/***
Golomt Bank	652.0
Khan Bank	600.6
Trade and Development Bank	563.5
Anod Bank	349.6
Postbank	253.5
Zoos Bank	235.8
Ulaanbaatar City Bank	143.7
Has Bank	143.0
Savings Bank	87.0

Source: Annual reports of *Golomt Bank*, *Khan Bank*, *Trade and Development Bank*, *Anod Bank*, *Postbank*, *Zoos Bank*, *Ulaanbaatar City Bank*, *Khas Bank* and *Savings Bank* by 2007.

At the end of 2007, 16 commercial banks were operating in the Mongolian banking sector. There are 2 main competitors of TDB: *Golomt Bank* and *Khan Bank*. *Golomt Bank*'s *total assets* reached MNT 652.0 billion and *Khan Bank*'s *total assets* reached MNT 600.6 billion by the end of 2007. While, TDB's total assets had grown to MNT 563.5 billion, in increase of MNT 137.2 billion or 32.2 percent over 2007, representing 17.4 per cent of the total banking sector assets.

[13] Trade and Development Bank, *Annual reports, 2005- 2007*, http://www.tdbm.mn/index.php?module=menu&sub=1&cmd=content&menu_id=363&smid= (accessed February 21, 2009).

5 ANALYSIS OF THE FINANCIAL STATEMENTS OF *TRADE AND DEVELOPMENT BANK*

Financial statements of the biggest two banks of Mongolia, *Khan Bank* and *Golomt Bank,* are additionally used for the vertical and ratio analysis.

Before starting this analysis part major events which took place in the analyzing years and economic situation of the banking sector should be mentioned. At the end of 2007 inflation reached to 15.1 per cent. "High inflation was a result of price increases of the main products, such as oil, wheat, flour and rice, as well as salary increases for civil servants, rising social security costs and a deficiency in the supply of seasonal products."[14]

According to the Bank of Mongolia, the central bank, by the end of 2007, the money supply is increased by MNT 864.6 billion or 56.3 per cent from the previous year. As a result, cash in circulation increased by MNT 119 billion or 48.5 per cent from the previous year.[15]

"Broadening of the banking sector and financial deepening is indicated by a 51.2 percent increase in total assets, a 75.7 per cent increase in current accounts, a 46.0 per cent increase in deposits and a 27.6 per cent increase in capital, compared to the previous year. Total loans increased by 68.1 per cent from the previous year, while the indicator of loan quality, the ratio of non-performing loans to the total loans, fell by 1.5 percentage points. Banks weighted average interest rates for MNT loans stood at 19.9 per cent, which is 4.6 percentage points lower than the end of the year 2006. Also, the activation of the secondary inter-bank market and the launching of the secondary mortgage market are examples of many positive results in the banking system."[16]

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[14] The Bank of Mongolia, *2007Annual report,* http://www.mongolbank.mn/html/2007/Annual%20report%20Eng2007.pdf (accessed February 21, 2009).

[15] Trade and Development Bank, *2007 Annual report,* http://www.tdbm.mn/download/Annual_Report2007_eng.pdf (accessed February 21, 2009).

[16] The Bank of Mongolia, *2007Annual report,* http://www.mongolbank.mn/web/guest/publication/anreport?id=a-annual-report-2007 (accessed February 23, 2009).

5.1 Horizontal analysis

Table 13 Balance sheets of TDB, 2005-2007

Asset	**2005**	**2006**	**2007**
Cash and cash equivalents	82,782	134,943	110,376
Investment securities	46,599	27,584	46,424
Loans and advances	156,727	240,106	382,308
Subordinated loan	-	-	4,000
Property, plant and equipment	9,736	12,226	11,683
Intangible assets	384	830	1,004
Other assets	6,550	10,603	7,707
Total assets	**302,778**	**426,292**	**563,503**
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	226,233	324,669	373,019
Deposits and placements of banks and other financial institutions	10,770	9,583	15,262
Loans from financial institutions	12,443	26,458	7,388
Taxation	851	1,230	1,455
Debt securities issued	-	-	86,662
Other liabilities	4,872	5,331	10,088
Total deposits, loans, taxation, other liabilities	**255,169**	**367,272**	**493,873**
Subordinated loans	9,768	9,320	9,360
Total liabilities	**264,937**	**376,592**	**503,233**
Shareholders' equity			
Share capital	6,607	6,610	6,610
Other reserves	12,156	12,172	6,339
Retained earnings	19,078	30,918	47,321
Total shareholders' equity	**37,841**	**49,700**	**60,270**
Total liabilities and shareholders' equity	**302,778**	**426,292**	**563,503**

Source: Annual reports of TDB, 2005-2007.
Note: Values are in MNT million.

Table 14 Horizontal analysis of the balance sheets

Balance Sheets	**2006/2005**	**2007/2005**
Asset		
Cash and cash equivalents	63%	33%
Investment securities	-41%	0%
Loans and advances	53%	144%
Subordinated loan	-	-
Property, plant and equipment	26%	20%
Intangible assets	116%	161%
Other assets	62%	18%
Total assets	41%	86%
Liabilities and shareholders' equity		
Liabilities		
Deposits from customers	44%	65%
Deposits and placements of banks and other financial institutions	-11%	42%
Loans from financial institutions	113%	-41%
Taxation	44%	71%
Debt securities issued	-	-
Other liabilities	9%	107%
Total deposits, loans, taxation and other liabilities	44%	94%
Subordinated loans	-5%	-4%
Total liabilities	42%	90%
Shareholders' equity		
Share capital	0%	0%
Other reserves	0%	-48%
Retained earnings	62%	148%
Total shareholders' equity	31%	59%
Total liabilities and shareholders' equity	41%	86%

Firstly, it is necessary to point out significant changes in the items during the analyzing years.

1. Comparing 2006 and 2007, *cash* decreased significantly by MNT 24.5 billion.
2. In 2006 *investment security* declined by 41 per cent from the base year, but in 2007, it increased to about the same amount as the base year. The reason is the bank bought back government securities (for MNT 3.9 billion) in 2007.
3. *Loans and advances* increased by over 50 per cent from the base year in 2006, but in 2007, it raised more sharply than the previous year by almost 150 per cent around 3 times rapidly.
4. In 2007 the bank sold precious metals (for MNT 3.0 billion), so that, the item *other assets* is decreased by MNT 2.9 billion from the previous year.
5. In 2007 the company purchased a new accounting software program and its intangible assets increased by 161 per cent from the base year.
6. As a consequence of those increases, the *total assets* increased steadily by over 40 per cent over each of the last 2 years.
7. Even though TDB issued senior unsecured notes in 2007, the item *debt securities issued* is not calculated as a percentage because of a zero amount of the base year.
8. *Total liabilities* also increased regularly from the base year.

The *retained earnings* increased by over 60 per cent from the base year in 2006, but in 2007, it increased more sharply than the previous year by almost 150 per cent as same as the increase in *loans and advances*.

In 2007 TDB issued medium-term notes which usually mature in from 3 to 10 years. Hence the bank has obtained those long-term investments, the bank need to keep relatively less cash than the previous years. Consequently, the bank declined cash by MNT 24.6 billion, paid most of the short-term liabilities such as *loans from financial institutions* (MNT 19.1 billion), bought more intangible assets (for MNT 174 million) and raised its *loans and advances* (by MNT 142.2 billion from previous year) in 2007. Due to the increase of *loans and advances*, which is the basic source of its profit, the *retained earnings* increased same way.

Table 15 Income statements of TDB by years, 2005-2007

Income statement	**2005**	**2006**	**2007**
Total revenue	**28,961**	**44,899**	**57,748**
Interest income	21,892	36,037	47,322
Interest expense	(6,291)	(14,589)	(26,675)
Net interest income	**15,601**	**21,448**	**20,647**
Net fees and commission income	3,584	4,577	6,288
Other operating income	3,485	4,285	4,138
Net non-interest income	**7,069**	**8,862**	**10,426**
Operating income	**22,670**	**30,310**	**31,073**
Operating expenses	(10,255)	(12,190)	(13,697)
Write back/(allowance) for impairment losses	(2,093)	(1,631)	2,572
Profit before tax	**10,322**	**16,490**	**19,948**
Corporate income tax	(2,943)	(4,716)	(3,552)
Net profit for the year	7,379	11,774	16,396

Source: Annual reports of TDB, 2005-2007.

Note: Values are in MNT million.

Table 16 Horizontal analysis of the income statement

Income statement	**2006/2005**	**2007/2005**
Interest income	65%	116%
Interest expense	132%	324%
Net interest income	37%	32%
Net fees and commission income	28%	75%
Other operating income	23%	19%
Net non-interest income	25%	47%
Operating income	34%	37%
Operating expenses	19%	34%
Write back/(allowance) for impairment losses	-22%	-223%
Profit before tax	60%	93%
Corporate income tax	60%	21%
Net profit for the year	60%	122%

Note: the base amount of *write back for impairment losses* is minus, and its result is minus. Therefore, this result is not meaningful in this case. Furthermore, 223 per cent (MNT4,665 million) change from the base value of the item, *write back for impairment losses*, is generally less significant than 116 per cent (MNT25,430 million) change of the item, *interest income.*

As an increase of *loans and advances*, *interest income* also increased by 116 per cent from the base year. Furthermore, in accordance with the increase of its providing financial service *net fees and commission income* accordingly increased by 75 per cent from the base year.

By the end of 2007 outstanding *debt securities* was MNT 86.7 billion and *deposits from customers* grew by MNT 146.8 billion from the base year in 2007. As a consequence of those increases of the liabilities, its *interest expense* soared tremendously by over 300 per cent from the base year. However *interest expense* increased excessively, *net profit* for the year, which is final result of its business activity, increased by 122 per cent from the base year. The result of this analysis indicates positive trends of the bank.

5.2 Vertical analysis

Table 17 Balance sheets by the three banks

Balance Sheets /2007/	***Khan Bank***	***Golomt Bank***	***TDB***
Asset			
Cash and cash equivalents	51,080	74,529	110,376
Due from banks	13,477	206,107	-
Derivative financial instruments	5,060	2,565	-
Financial investments - available-for-sale	9,320	34,951	46,424
Loans and advances to customers	490,101	323,026	386,308
Property, plant and equipment	28,621	4,719	11,683
Intangible assets	-	1,938	1,004
Other assets	2,947	4,216	7,707
Total assets	**600,605**	**652,051**	**563,503**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	20,289	36,819	15,262
Due to customers	493,350	512,485	373,019
Debt securities issued	-	-	86,662
Derivative financial instruments	-	2,690	-
Borrowed funds	25,298	21,911	7,388
Subordinated loans	-	15,860	9,360
Other liabilities	3,405	23,436	10,088
Tax payable	449	176	1,455
Total liabilities	542,791	613,379	503,233
Shareholders’ equity			
Share capital	23,280	21,934	6,610
Retained earnings	34,534	16,738	53,660
Total shareholders’ equity	**57,813**	**38,672**	**60,270**
Total liabilities and equity	**600,605**	**652,051**	**563,503**

Source: Annual reports of Khan Bank, Golomt Bank and TDB, 2007.

Note: Values are in MNT million.

Table 18 Vertical analysis of the balance sheets

Assets	*Khan Bank*	*Golomt Bank*	*TDB*
Cash and cash equivalents	9%	11%	20%
Due from banks	2%	32%	-
Derivative financial instruments	1%	0%	-
Financial investments - available-for-sale	2%	5%	8%
Loans and advances to customers	82%	50%	69%
Property, plant and equipment	5%	1%	2%
Intangible assets	0%	0%	0%
Other assets	0%	1%	1%
Total assets	**100%**	**100%**	**100%**
Liabilities and shareholders' equity			
Liabilities			
Due to banks	3%	6%	3%
Due to customers	82%	79%	66%
Debt securities issued	-	-	15%
Derivative financial instruments	0%	0%	0%
Borrowed funds	4%	3%	1%
Subordinated loans	-	2%	2%
Other liabilities	1%	4%	2%
Tax payable	0%	0%	0%
Total liabilities	**90%**	**94%**	**89%**
Shareholders' equity			
Share capital	4%	3%	1%
Retained earnings	6%	3%	10%
Total shareholders' equity	**10%**	**6%**	**11%**
Total liabilities and shareholders' equity	**100%**	**100%**	**100%**

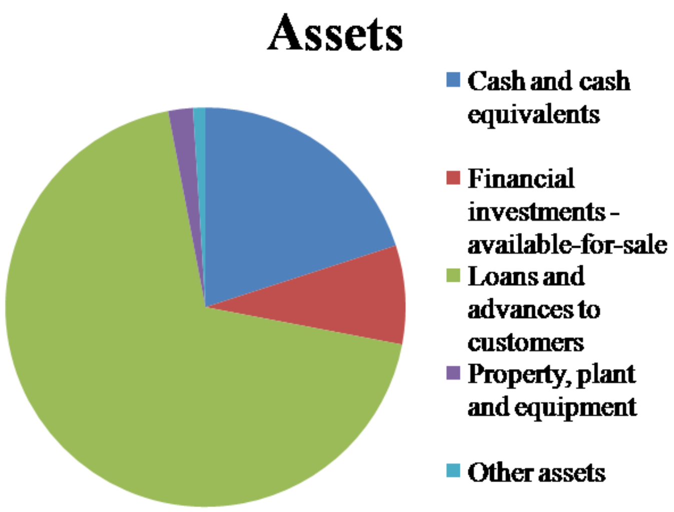

Figure 1. Vertical analysis of TDB's Assets, 2007.

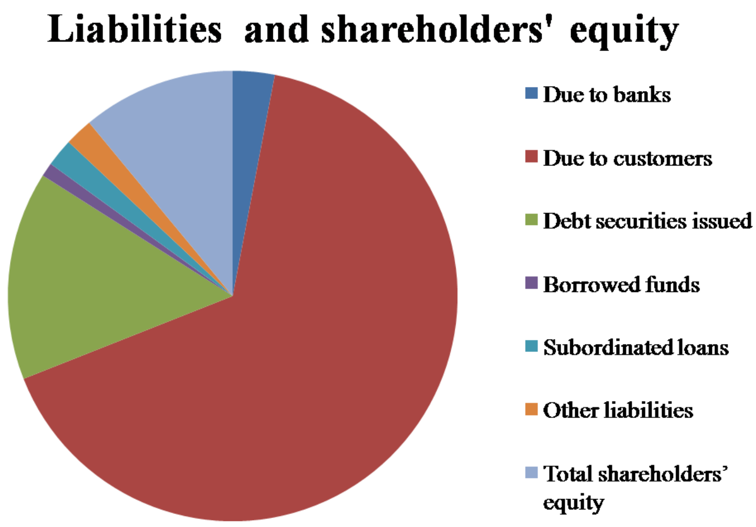

Figure 2. Vertical analysis of TDB's liabilities and shareholders' equity by 2007.

TDB has relatively more portion of *cash and cash equivalents* than Khan Bank and Golomt Bank. It could be inferred that TDB has adequate cash. TDB purchased government securities in 2007, and it (*financial investments - available-for-sale*) was 8 per cent of the *total assets*. Khan Bank's *loans and advances* filled most proportion of its *total assets*. It could reflect that Khan Bank uses its assets extensively for its main business activity. TDB's percentage of *share capital* was the lowest but its proportion of *retained earnings* was the highest among the three banks at the end of 2007. The most proportion of TDB's *shareholders' equity* was *retained earnings* from the business activity. TDB's *retained earnings* was MNT 60.3 billion, Khan Bank's was MNT 57.8 billion and Golomt Bank's was the lowest MNT 38.0 billion at the end of 2007.

Table 19 Income statements of the three banks

Income statement /2007/	***Khan Bank***	***Golomt***	***TDB***
Interest income	88,122	44,564	47,322
Net non-interest income	6,933	6,446	10,426
Other operating income	1,716	2,024	0
Total income	**96,772**	**53,033**	**57,748**
Interest expense	(36,737)	(30,228)	(26,675)
Operating expenses	(31,210)	(11,317)	(13,697)
Write back/(allowance) for impairment losses	(3,303)	(2,299)	2,572
Profit before tax	**25,521**	**9,189**	**19,948**
Corporate income tax	(6,123)	(1,811)	(3,552)
Net profit for the year	**19,399**	**7,378**	**16,396**

Source: Annual reports of Khan Bank, Golomt Bank and TDB, 2007.

Note: Values are in MNT million.

Table 20 Vertical analysis of the income statements

Income statement	***Khan Bank***	***Golomt***	***TDB***
Interest income	91%	84%	82%
Net non-interest income	7%	12%	18%
Other operating income	2%	4%	0%
Total income	**100%**	**100%**	**100%**
Interest expense	-38%	-57%	-46%
Operating expenses	-32%	-21%	-24%
Write back/(allowance) for impairment losses	-3%	-4%	4%
Profit before tax	**26%**	**17%**	**35%**
Corporate income tax	-6%	-3%	-6%
Net profit for the year	**20%**	**14%**	**28%**

Net non-interest income includes *foreign exchange, trading and translation gains* and *net fee and commission income*. That income reached to MNT 10.4 billion and represented 18 per cent of the *total income* by 2007.

TDB's *interest income* was 47.3 billion, while its *interest expense* was about MNT 26.7 billion, representing 46 per cent of total income. TDB's *net profit for the year* was the highest proportion of *total income* comparing with Khan Bank and Golomt Bank. It portrays that TDB manages its expenditures most effectively comparing with the others. The result of this analysis affirms that TDB's profitability was the highest among the banks in 2007.

5.3 Ratio analysis

The ratio analysis of banking sector has some specific characteristics. There are no items in the financial statements of a bank such as *sales*, *cost of goods sold* and *inventory*. For that reason, some of the *liquidity ratios*, for instance *inventory turnover*, *receivables turnover*, *cash ratio*, *quick ratio* and as well as some of the *profitability ratios* such as *profit margin*, *asset turnover* are not used to analyze financial statements of a bank. Practically when analyzing *liquidity ratios* of a bank only *current ratio* is used. *Return on equity* and *return on assets* are mainly used to evaluate a bank's profitability. *Debt to total capital* and *times interest earned* ratios could be used to evaluate a bank's solvency.

5.3.1 Liquidity ratios

Table 21 Formula of *current ratio*

$$\text{Current ratio (CR)} = \frac{\text{Liquid assets}}{\text{Current liabilities}} = \frac{\text{MNT82,392 mill}}{\text{MNT 316,891 mill}} = 26.0\%$$

Table 22 *Liquidity ratios* of TDB, 2004-2007

CR	**2007**	**2006**	**2005**	**2004**
At 31 December	26.0%	27.5%	49.7%	41%

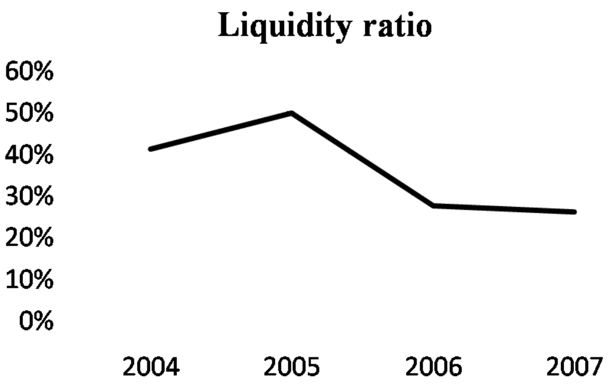

Figure 3. Liquidity ratio of TDB, 2004-2007.

Net current assets (*liquid assets* in the banking terms) are considered as including *cash and cash equivalents*, *central bank bills*, current accounts and *deposits placed with Bank of Mongolia and other domestic and foreign banks*. An analysis of the financial assets and liabilities into relevant maturity groupings (based on the remaining periods to repayment) are used for calculating this ratio.

The minimum *liquidity ratio* (calculated by the formula of *current ratio*) is 18 per cent established by Bank of Mongolia.[17] Clearly TDB's short-term risk management is executed very sufficiently and its *current ratio* was at the most appropriate level among the banks in 2007. Khan Bank's *current ratio* was quite low and did not reach at the minimum of this ratio which is established by the central bank of Mongolia. It reflects that Khan Bank is in under a threat that it possibly could not satisfy its possible current financial obligations.

Golomt Bank's ability to satisfy its current liability is much greater than Khan Bank and TDB. In another hand, it possibly reflects that Golomt Bank uses its assets inefficiently. More precisely, Golomt Bank keeps exceeded or more current assets than its actual need to meet its possible current financial obligations. Golomt Bank probably was loosing its possibility to gain from investing those exceeded current assets to a possible profitable project or efficient business activity.

Details of the reported ratios of *net liquid assets* to *current liabilities* of Khan Bank and Golomt Bank are as below.

Table 23 *Current Ratios* of Khan Bank and Golomt Bank

Current ratio (2007)	**Khan Bank**	**Golomt Bank**
31 December	13.4%	49.3%
Average during the year	23.6%	53.0%
Highest	35.3%	59.3%
Lowest	13.4%	49.3%

Source: Annual reports of Khan Bank, Golomt Bank and TDB, 2007

[17] Trade and Development Bank, *2007 Annual report,* http://www.tdbm.mn/download/Annual_Report2007_eng.pdf (accessed February 21, 2009).

5.3.2 Profitability ratios

Table 24 Formula of *return on assets* ratio

$$\text{Return on Assets (RoA)} = \frac{\text{Net income}}{\text{Average asset}} = \frac{\text{MNT16,396 mill}}{\text{MNT 563,503 mill}} = 2.9\%$$

Table 25 *Return on assets* ratio of TDB, 2004-2007

RoA	2007	2006	2005	2004
At 31 December	2.9%	2.8%	3.0%	2.9%

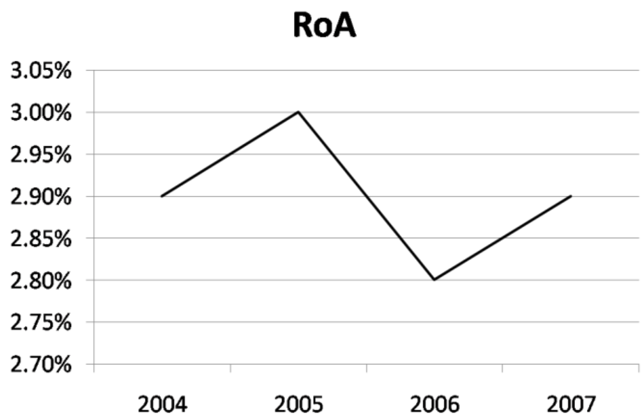

Figure 4. Return on Asset ratio of TDB, 2004-2007.

Table 26 *Return on assets* ratio of the banks

RoA	Khan Bank	Golomt Bank	TDB
At 31 December 2007	3.9%	1.5%	2.9%

This ratio result of Golomt Bank reflects that it is using the assets not very efficiently. Golomt Bank's total assets was more MNT 88.5 billion than TDB's total assets but its net profit for the year of 2007 was less MNT 9.0 billion than TDB's net profit for the year of 2007. Furthermore, TDB's RoA ratio was static during the four years. Khan Bank's RoA ratio was the highest among the three banks. It could be interpreted that Khan Bank is using its assets extensively and that is why its liquid assets were at a quite low level in 2007.

Table 27 *Return on Equity* ratio of TDB by 2007

$$\text{Return on Equity(RoE)} = \frac{\text{Net income}}{\text{Average equity}} = \frac{\text{MNT16,396 mill}}{\text{MNT 54,985 mill}} = 29.8\%$$

Table 28 *Return on Equity* ratio of TDB, 2004-2007

RoE	2007	2006	2005	2004
At 31 December	29.8%	26.9%	24.3%	23.6%

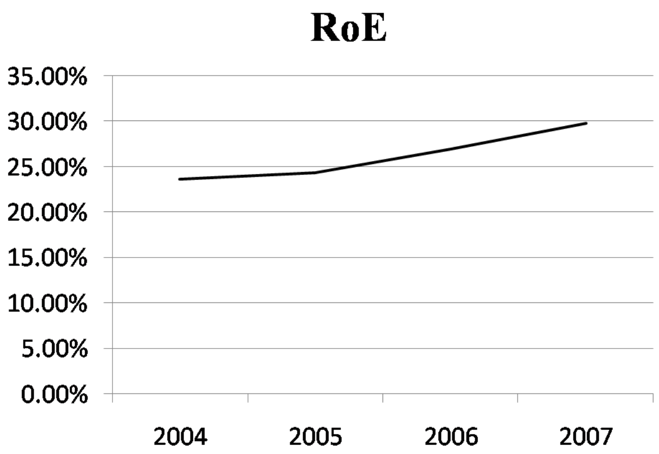

Figure 5. Return on Equity ratio of TDB, 2004-2007.

Table 29 *Return on Equity* ratio by the banks

RoE	Khan Bank	Golomt Bank	TDB
At 31 December 2007	45.9%	21%	29.8%

Similarly with *return on assets*, Khan Bank's *return on equity* ratio was the highest and Golomt Bank's was lowest. TDB did not issue shares since the end of 2005. Therefore, its *share capital* fills only 1 per cent of its *total liabilities and equity*. For the reason that share capital was static while its *income* was increasing, *return on equity* had been constantly increasing during the analyzing years.

5.3.3 Solvency ratios

Table 30 Formula of *debt to total capital* ratio

$$\text{Debt to Total Capital (DTC)} = \frac{\text{Total debt}}{\text{Total capital}} = \frac{\text{MNT503,233 mill}}{\text{MNT 563,503 mill}} = 89.3\%$$

Table 31 *Debt to total capital* ratio of TDB, 2004-2007

DTC	2007	2006	2005	2004
At 31 December	89.3%	88.3%	87.5%	87.7%

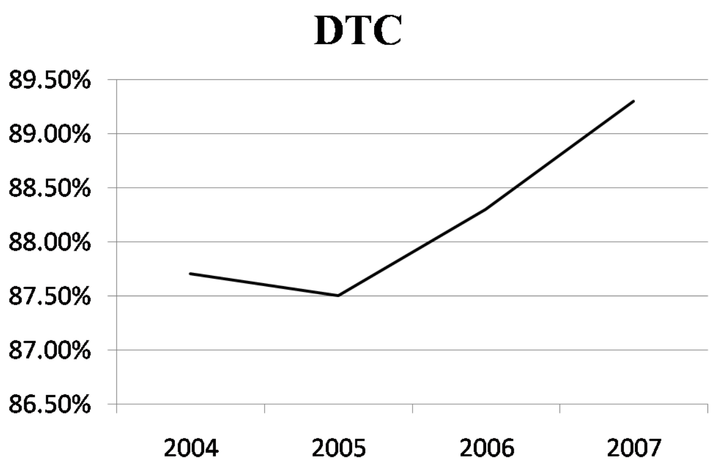

Figure 6. Debt to Total Capital ratio of TDB, 2004-2007.

Table 32 *Debt to total capital* ratio by banks

DTC	Khan Bank	Golomt Bank	TDB
At 31 December 2007	90.3%	94.0%	89.3%

The result of *debt to total capital* ratio shows 89 per cent of the *total capital* provided by creditors and 11 per cent of the *total capital* provided by shareholders' equity. Its *retained earnings* was 10 per cent and *share capital* was 1 per cent of the *total share holders' equity*. TDB's *debt to total capital* ratio was the lowest, and it represents that TDB is the most trustworthy bank for creditors among the three banks. Its ratio was increasing slowly for the last three years. The ratio increased by 0.8 percent from 2005 to 2006 and by 1.0 percent from 2006 to 2007.

Table 33 *Times Interest Earned* ratio of TDB, 2007

$$\text{Times Interest Earned (TIE)} = \frac{\text{EBIT}}{\text{Interest expense}} = \frac{\text{MNT46,623 mill}}{\text{MNT 26,675 mill}} = 1.7 \text{ times}$$

Table 34 *Times Interest Earned* ratio of TDB, 2004-2007

TIE	2007	2006	2005	2004
At 31 December	1.7	2.5	3.4	3.7

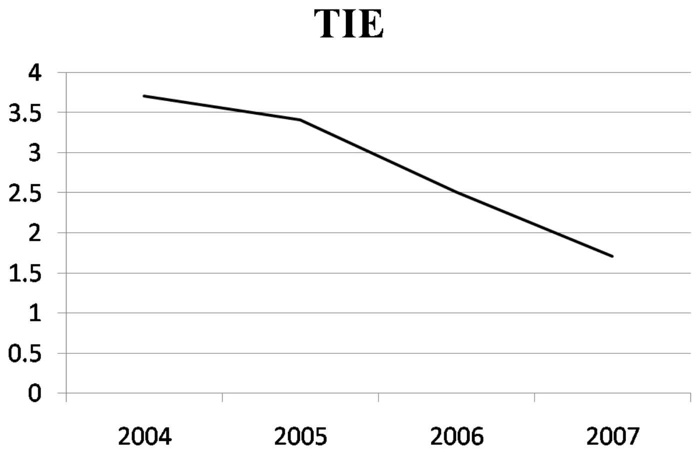

Figure 7. Times Interest Earned ratio of TDB, 2004-2007.

Table 35 *Times interest earned* ratio by banks

TIE	**Khan Bank**	**Golomt Bank**	**TDB**
At 31 December 2007	**1.7**	**1.5**	**1.7**

TDB's *earnings before interest and taxes* will cover its *interest expense* 1.7 times at 31 December, 2007. As its rapid growth of interest expenses on its liabilities and deposits during 2006 and 2007, its ratio was decreased sharply in those years. The ratio of Khan Bank and TDB was at the same level at the end of 2007. The result of this analysis portrays that TDB's ability to honor its interest payments was sufficient in 2007.

CONCLUSION

One of the most highlighted achievements is the company's rapid growth during the analysing years. Its total assets grew 86 per cent to MNT 563.2 billion while net profit rose 39.3 per cent to MNT 16.4 billion from the end of 2005 till the end of 2007.

As mentioned before that TDB's solvency is rated as "questionable credit quality" (*Ba2 grade*) by Moody in 2007, its solvency has been quite well during the analyzing years. Similarly, those results of this financial statement analysis indicate that its performance of financial management was absolutely highly profitable and its financial position was the most stable among the banks. TDB could improve more its sound performance for preceding years. Hence TDB will obtain continuously longer term investments through issuing bonds in the international public debt markets, the bank should reduce further its short-term liabilities with higher interest rates in following years. Thereby, this process will enable TDB to provide its clients or customers with longer term financing with more affordable interest rates than the other banks. Accordingly, its financial position will be stabled more and the most of its operation expenditure, interest expenses will be lessened.

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APPENDICES

APPENDIX P I: AN ANALYSIS OF THE FINANCIAL ASSETS AND LIABILITIES OF *TDB* INTO RELEVANT MATURITY GROUPINGS BASED ON THE REMAINING PERIODS TO REPAYMENT BY 2007

As at 31 December 2007						*MNT million*
	Less than 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets:						
Cash on hand	27,118					27,118
Deposits and placements with banks and other financial institutions	73,713					73,713
Balances with the Bank of Mongolia	9,545					9,545
Investment securities	36,811	3,453	5,899		260	46,424
Loans and advances	86,075	25,239	106,279	148,458	16,257	382,308
Subordinated loan				4,000		4,000
Other assets	7,707					7,707
Total	**240,969**	**28,693**	**112,178**	**152,458**	**16,517**	**550,815**
Cumulative total	240,969	269,662	381,840	534,298	550,815	
Financial liabilities:						
Deposits from customers	182,410	57,601	47,735	85,274		373,019
Deposits and placements of banks and other financial institutions	9,287	5,975				15,262
Loans from financial institutions	602	1,290	1,904	3,418	174	7,388
Subordinated loans				9,360		9,360
Debt securities issued				86,662		86,662
Other liabilities	10,088					10,088
Total	**202,387**	**64,865**	**49,639**	**184,713**	**174**	**501,778**
Cumulative total	202,387	267,252	316,891	501,604	501,778	
Net financial assets/(liabilities)	38,582	(36,172)	62,540	(32,255)	16,343	49,038
Cumulative total	38,582	2,410	64,949	32,694	49,038	

APPENDIX P II: AN ANALYSIS OF THE FINANCIAL ASSETS AND LIABILITIES OF *TDB* INTO RELEVANT MATURITY GROUPINGS BASED ON THE REMAINING PERIODS TO REPAYMENT BY 2006

MNT million

As at 31 December 2006	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash on hand	25,372					25,372
Deposits and placements with banks and other financial institutions	83,843					83,843
Balances with the Bank of Mongolia	25,728					25,728
Investment securities	24,018	3,505			61	27,584
Loans and advances	27,636	27,963	80,186	96,950	7,371	240,106
Other assets	10,603					10,603
Total	**197,200**	**31,468**	**80,186**	**96,950**	**7,732**	**413,237**
Cumulative total	197,200	228,668	308,854	405,804	413,537	
Financial liabilities:						
Deposits from customers	265,101	25,418	29,730	4,420		324,669
Deposits and placements of banks and other financial institutions	9,583					9,583
Loans from financial institutions	6,084	8,827	3,296	7,132	1,119	26,458
Subordinated loans						9,320
Other liabilities	5,331					5,331
Total	**289,100**	**34,245**	**33,026**	**20,872**	**1,119**	**375,362**
Cumulative total	289,100	323,345	356,371	377,243	378,362	
Net financial assets/(liabilities)	(88,900)	(2,777)	47,160	(76,078)	6,313	37,875
Cumulative total	(88,900)	(91,677)	(44,516)	31,561	37,875	

APPENDIX P III: AN ANALYSIS OF THE FINANCIAL ASSETS AND LIABILITIES OF *TDB* INTO RELEVANT MATURITY GROUPINGS BASED ON THE REMAINING PERIODS TO REPAYMENT BY 2005

MNT million

As at 31 December 2005	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash on hand	11,772					11,772
Deposits and placements with banks and other financial institutions	62,183					62,183
Balances with the Bank of Mongolia	8,827					8,827
Investment securities	44,856	1,743				46,599
Loans and advances	11,435	25,764	59,204	56,810	3,516	156,727
Other assets	6,550					6,550
Total	**145,622**	**27,507**	**59,204**	**56,810**	**3,516**	**292,658**
Cumulative total	145,622	173,129	232,333	289,142	292,658	
Financial liabilities:						
Deposits from customers	198,814	12,533	13,814	1,072	-	226,233
Deposits and placements of banks and other financial institutions	10,770					10,770
Loans from financial institutions	412		174	10,639	1,218	12,443
Subordinated loans				10		10
Other liabilities	4,872					4,872
Total	**214,868**	**12,533**	**13,988**	**21,479**	**1,218**	**264,086**
Cumulative total	214,868	227,401	241,389	262,868	264,086	
Net financial assets/(liabilities)	(69,246)	14,974	45,215	35,330	2,298	28,572
Cumulative total	(69,246)	(54,272)	(9,056)	26,274	28,572	

APPENDIX P IY: *GOLOMT BANK*: AN ANALYSIS OF THE FINANCIAL ASSETS AND LIABILITIES INTO RELEVANT MATURITY GROUPINGS BASED ON THE REMAINING PERIODS TO REPAYMENT BY 2007

At 31st December 2007	Less than 12 months MNT '000	More than 12 months MNT '000	Total MNT '000
Financial assets			
Cash and balances with central bank	74,529,087	-	74,529,087
Due from banks	191,244,352	14,862,482	206,106,834
Derivative financial instruments	2,565,117	-	2,565,117
Financial investments - available-for-sale	34,950,867	-	34,950,867
Loans and advances to customers	210,326,287	112,699,037	323,026,324
Other receivables	1,264,755	-	1,264,755
	514,882,465	**127,560,519**	**642,442,984**
Non financial assets			
Property, plant and equipment	-	4,718,911	4,718,911
Intangible assets	-	1,938,152	1,938,152
Other assets	2,090,312	860,548	2,950,860
	2,090,312	**7,517,611**	**9,607,923**
Total	**516,972,777**	**135,078,130**	**652,050,907**
Financial liabilities			
Due to banks	35,819,404	-	35,819,404
Due to customers	511,261,123	1,224,024	512,485,147
Derivative financial instruments	2,565,117	125,206	2,690,323
Borrowed funds	9,181,043	12,730,402	21,911,445
Subordinated loans	-	15,860,015	15,860,015
Other liabilities	23,436,369	-	23,436,369
	583,263,056	**29,939,647**	**613,202,703**
Non financial liabilities			
Tax payable	176,415	-	176,415
Total	**583,439,471**	**29,939,647**	**613,379,118**
Net	**(66,466,693)**	**105,138,483**	**38,671,789**

APPENDIX P Y: *KHAN BANK*: AN ANALYSIS OF THE FINANCIAL ASSETS AND LIABILITIES INTO RELEVANT MATURITY GROUPINGS BASED ON THE REMAINING PERIODS TO REPAYMENT BY 2007

At 31 December 2007	Total less than 12 months MNT '000	Total over 12 months MNT '000	Total MNT '000
Financial Assets	51,079,629	-	51,079,629
Cash and balances with central bank	13,476,581	-	13,476,581
Due from banks	347,776,860	142,323,696	490,100,556
Loans and advances to customers	9,320,478	-	9,320,478
Financial investment - available-for-sale	5,059,606	-	5,059,606
Financial investment - held to maturity	426,713,154	142,323,696	569,036,850
Non-financial Assets	-	28,620,559	28,620,559
Property, plant and equipment	2,947,297	-	2,947,297
Other assets	2,947,297	28,620,559	31,567,856
Total	429,660,451	170,944,255	600,604,706
Financial liabilities			
Due to banks	20,288,537	-	20,288,537
Due to customers	492,283,456	1,066,909	493,350,365
Debt issued and other borrowed funds	10,380,004	14,918,157	25,298,161
	522,951,997	15,985,066	538,937,063
Non-financial liabilities			
Other liabilities	3,405,184	-	3,405,184
Taxes payable	449,000	-	449,000
	3,854,184	-	3,854,184
Total	526,806,181	15,985,066	542,791,247
Net	(97,145,730)	154,959,189	57,813,459