GOLOMT BANK OF MONGOLIA

ANNUAL REPORT **2007**

GOLOMT BANK

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REPORT OF THE CHAIRMAN OF THE GOVERNING BOARD

Once again Golomt Bank shared in and contributed to the underlying growth in the national economy by recording a further year of stellar progress in our thirteenth year of operations.

D. Bayasgalan, Chairman of Board of Governors

To our Shareholder, Esteemed Customers and Trusted Correspondent Banks, Business Partners and Valued Employees

It is my privilege and pleasure to report to you for the first time in my new capacity as Chairman of the Board of Governors of the Bank.

As we are all aware the year 2007 proved another propitious year for our beloved Motherland of Mongolia with the budget recording its third consecutive year of surplus while international reserves have risen to a record level and real GDP rose by 9.9 per cent., constituting the third consecutive year of near double digit growth.

Once again Golomt Bank shared in and contributed to the underlying growth in the national economy by recording a further year of stellar progress in our thirteenth year of operations.

Total assets grew by 85 per cent. to reach MNT 652 billion (USD 557 million) so that the Bank became, for the first time the largest bank in Mongolia, as well as, we believe, the best.

This reflected increases of over 80 per cent. in both customer deposits and in the loan portfolio while still maintaining our rigorous credit standards.

Reflecting this broadly based growth across all elements of the balance sheet, post-tax profits nearly tripled to reach MNT 7.4 billion (USD 6.3 million) and capital was enhanced by 53 per cent., amounting to MNT 54.9 billion (USD 46.9 million) by the year end.

In addition to our financial and operating success the Bank made considerable progress in strengthening its corporate governance and achieving the desirable separation of ownership and management.

At the beginning of October, after having served the Bank for over eleven years as President and Chief Executive Officer, I was elected Chairman of the Board of Governors succeeding Mr. Boldkhuyag Luvsanvandan, who had served with distinction in that role since 2004.

I pay tribute to Mr. Boldkhuyag's valued contribution throughout his term of office and we are all grateful that we continue to enjoy the benefit of his wise counsel through his ongoing service as a Member of the Board of Governors.

In turn I was succeeded as Chief Executive Officer by John Finigan, a British banker with considerable experience in emergent market economies, who was recruited after a wide ranging global search assignment. Under his leadership, we are already witnessing progress towards achieving best international practice in all aspects of our operations.

We were delighted to initiate a pioneering partnership with Credit Suisse, the most respected and leading Swiss bank, through a subordinated convertible loan facility which initially augments our Tier 2 capital base while being convertible at an escalating premium over book value into around 20 per cent. of the Bank's equity.

It is indeed gratifying that the entry of such a globally respected name into the Mongolian banking system has been achieved through the auspices of Golomt Bank.

In conclusion, upon behalf of all Members of the Board of Governors, I express my appreciation to the four components of our corporate existence: first, our esteemed clients and valued correspondent banks for entrusting us with their business and financial resources; secondly, the citizens, companies and whole community throughout Mongolia for the confidence which they repose in the Bank; thirdly, our loyal, dedicated and diligent management and staff at all levels who contribute so much to our mutual success; and finally, to our Shareholder, Bodi International LLC.

Together we will all strive constantly to achieve even greater success in 2008 as we commence the new lunar cycle in this year of the Rat, and in all the years beyond.

D. Bayasgalan
Chairman of Board of Governors

REPORT OF THE CHIEF EXECUTIVE OFFICER

Against the exogenous background of resilient growth in the domestic and regional economies and the underlying strong endogenous momentum generated by our highly trained and dedicated staff members and growing range of international partnerships, the Bank is well placed to capitalize upon its leading position in the domestic banking sector in the coming years.

John P. Finigan, Chief Executive Officer

To All our Valued Stakeholders

While the year 2007 was marked by considerable turbulence in the international capital markets, with many of the world's leading banks encountering significant challenges, it proved once again to be a year of great progress for the Bank in which we achieved robust growth in all key aspects of our business and operations while meeting or surpassing both revenue and non-revenue targets. Our physical presence expanded materially throughout the year with the opening of eight new offices in Ulaanbaatar plus two in Khuvsgul Aimag and single offices in Orkhon and Umnugobi Aimags. In addition we introduced our first full self-service units and located experienced loan officers in some of the leading retail outlets in Ulaanbaatar in order to extend consumer loans for higher value household equipment. These resulted in the Bank having a total network of 44 service outlets by the year end including our Head Office on Sukhbaatar Square in the heart of our country's capital, supplemented by 20 ATMs.

Through these 64 physical outlets we continue to deliver our rapidly expanding range of banking and financial services and products expressly tailored to meet the ever increasing requirements of our expanding customer base. We are committed to the constant expansion of our IT capabilities to underpin the evolution of our service base and customer support functions offered through the multiple delivery channels of our branch network, our centralized Call Centre in Ulaanbaatar, E-Banking and telephone banking.

E-Banking services were extended beyond the established depository, payment and exchange options to include loan offerings accessible directly through www.golomtbank.com. In like fashion our product range is continuously expanding with the introduction of our prestigious Platinum MasterCard extending the widest range of card services, including access for our valued clients to the newly revamped and renamed Golomt Bank Platinum Lounge for passengers arriving at or departing from Chinggis Khan International Airport.

We also introduced the co-branded Golden Visa card in conjunction with the Mongolian National Chamber of Commerce and Industry.

The Bank's credit offerings were expanded to embrace leasing services to facilitate the acquisition by our major customers in the key mining, construction, civil engineering and agricultural sectors of advanced heavy equipment with payments spread over the medium-term as well as innovative phased construction development financing support programmes.

We continued the rapid expansion of our business volumes with our valued Correspondent Banks and established new relationships with leading institutions such as Bank of China, Citicorp, CIBC and ING Bank. In parallel we further developed our collaboration with the leading supra-national financial institutions including the World Bank, International Development Agency and Asian Development Bank co-financing programmes.

We made considerable progress in strengthening our Corporate Governance and transparency, augmenting senior management and establishing a new pan-bank organization structure in order better to align the distinct elements of delivery, process and control.

Experienced executives were appointed to their new roles of Anti-Money Laundering and Compliance Functions, and a new Security Manager appointed to protect the integrity of the physical assets and property while the roles of the key Audit, Credit, ALCO and Executive Committees were redefined and strengthened. Our paramount risk management strategy is directed towards the identification, containment and mitigation of risk concentrations by exposures, instruments, products, obligors and sectoral limitations.

All elements of our balance sheet structure exhibited symmetrical growth predicated upon customers' deposits increasing by 80 per cent. amounting to MNT 228 billion, from MNT 284 billion to reach MNT 512 billion.

In turn the loan portfolio increased by 85 per cent. following a net increase of MNT 148 billion from MNT 174 billion to reach MNT 323 billion.

Notwithstanding this near doubling of the size of the loan portfolio the Bank continues to impose extremely rigid credit qualitative evaluation criteria as is manifested by the welcome decline in the proportion of Non-Performing Loans from 6.7 per cent. at the end of 2006 to 4.2 per cent. by the year end.

It is also noteworthy that, despite the level of increase in the loan portfolio, the overall advances/deposits ratio remained at a very conservative 63 per cent. marginally higher than the level of 62 per cent. obtaining at the end of 2006.

Total assets also grew by 85 per cent. from MNT 353 billion to reach MNT 652 billion at the end of December, an increase of MNT 299 billion.

As a result, the Bank has become the largest bank in Mongolia measured in terms of assets and deposits. Although this is a most welcome development it remains subordinate to our paramount objective of always being regarded as the best bank in Mongolia and the bank of choice for all the people, companies, banks and official agencies actively involved in or doing business in Mongolia.

From the revenue perspective the year also proved one of robust growth with interest income increasing by 66 per cent., rising to MNT 44.6 billion from the level of MNT 26.9 billion achieved in 2006, while net interest income increased roughly commensurately from MNT 8.7 billion to reach MNT 14.3 billion.

Non-interest income exhibited very welcome growth of 80 per cent. rising from MNT 4.7 billion to reach MNT 8.5 billion.

Meanwhile expenses rose by a more constrained 63 per cent. to reach MNT 10.1 billion up from MNT 6.2 billion in the prior year. Of this increase of MNT 3.9 billion over 20 per cent. represented increased staff costs.

Provisions for impaired indebtedness decreased by 10% amounting to MNT 2.3 billion with total provisions outstanding of MNT 14.3 billion representing a coverage level of 102 per cent.

As a result for the thirteenth consecutive year the Bank achieved record operating profits at the pre-tax level of MNT 9.2 billion, up MNT 5.6 billion from the level of MNT 3.6 billion achieved in 2006.

The ensuing taxation charge rose from MNT 1.11 billion in 2006 to reach MNT 1.8 billion for fiscal 2007, an increase of 63 per cent. while the post-tax profit for the year attributable to our Shareholder amounted to MNT 7.4 billion, an increase of 193 per cent. over the level of attained for 2006.

Shortly before the year end the Bank's capital was augmented by the subscription of the first USD 10 million tranche of a total facility of up to USD 20 million by way of a subordinated Convertible Loan from Credit Suisse which forms part of our Tier 2 capital base.

Credit Suisse has the right to convert this loan facility into an amount of around 20 per cent. of the equity of the Bank at an escalating premium over the net book value. This formula results in a valuation of the Bank's net enterprise value of USD 100 million (equivalent to MNT 117 billion).

All the foregoing combined to result in an increase in our total capital of MNT 19 billion rising to reach MNT 54.9 billion by the year end.

Of this amount MNT 38.7 billion represented Tier 1 capital attributable to our Shareholder, while Tier 2 capital amounted to MNT 16.2 billion.

The Bank collaborates with the Mongolian National Chamber of Commerce and Industry and Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) as well as other national agencies such as the Mongolian National Tourism Organization to support seminars and conferences to facilitate the promotion of inward investment into, and knowledge of Mongolia with its unique heritage and exceptionally bright economic prospects.

During the year the Bank received recognition and awards from the State Customs Department as the “Customs Partner Bank” and from the National Social Security Office as the “National Leading Social Security Contributing Organization”. From MasterCard Worldwide we received the award of “Best Platinum Card of the Year”. Most noteworthy, however, was the conferring for the second time of the President's National Productivity Award 2007. Golomt Bank remains the only bank to have been so honoured by the President.

Besides the generation of return for our Shareholder we are always mindful of the importance of acting as good corporate citizens for the benefit of all elements of Mongolian society. This is manifested in diverse ways through our direct donation of resources in excess of MNT 90 million to develop medical, education, artistic, and other philanthropic opportunities for the enduring benefit of our country and its citizens. In addition the Bank is very clearly focused upon conducting all its activities in the most ethically and environmental-friendly manner possible.

Against the exogenous background of resilient growth in the domestic and regional economies and the underlying strong endogenous momentum generated by our highly trained and dedicated staff members and growing range of international partnerships, the Bank is well placed to capitalize upon its leading position in the domestic banking sector in the coming years.

John P. Finigan
Chief Executive Officer

GOLOMT BANK

2007 proved another propitious year for our beloved Motherland of Mongolia with the budget recording its third consecutive year of surplus while international reserves have risen to a record level and real GDP rose by 9.9 per cent., constituting the third consecutive year of near double digit growth.

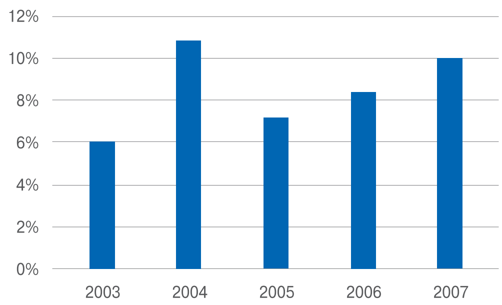
"Contributing to build a sustainable society and economy"

ECONOMIC REVIEW

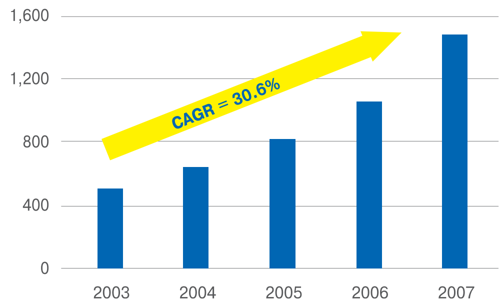
In recent years the economy of Mongolia has shown sustained growth with real GDP rising by 9.9 per cent. in 2007 to reach US$ 3.9 billion, the fourth consecutive year of growth above the 7 per cent. level.

This reflects broadly based expansion across manufacturing (real growth of 32.3 per cent.), construction (22.4 per cent.), transport and communication (18.6 per cent.), agriculture (15.8 per cent.), wholesale and services (15.4 per cent.) and mining (with 1.7 per cent. growth, while still constituting the biggest individual component of GDP) sectors.

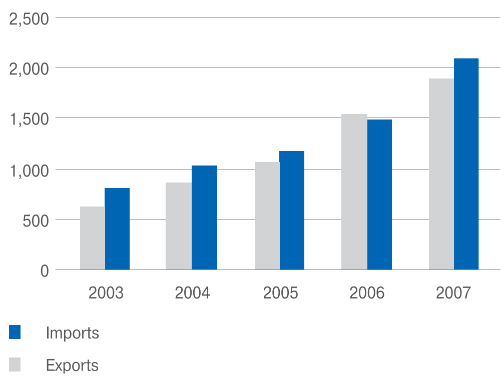
Real GDP growth (%)



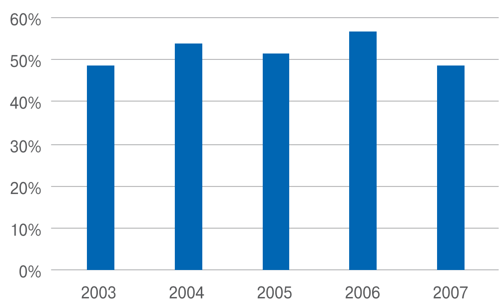
GDP per capita (US$)



Exports & Imports (US$ Million)



Exports / GDP Ratio (%)



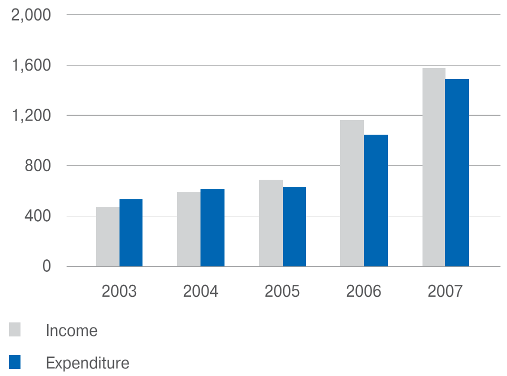
In 2007 exports amounted to US$ 1.9 billion (48.5 per cent. of GDP), primarily driven by high copper and gold prices accompanied by increased volumes of cashmere, while imports rose to US$ 2.1 billion. Compared to 2006, the aggregate trade volume increased by 32.3 per cent., within which exports rose by 22.4 per cent. and imports by 42.5 per cent. The negative trade balance reflected substantial imports of capital equipment, particularly, for the mining sector as well as materials to fuel the construction boom presently underway in our capital city of Ulaanbaatar.

Public finances benefited with fiscal revenue increasing by over 62.4 per cent. in 2006 and by 36.1 per cent. in 2007 creating a fiscal surplus of almost 2.2 per cent. of GDP.

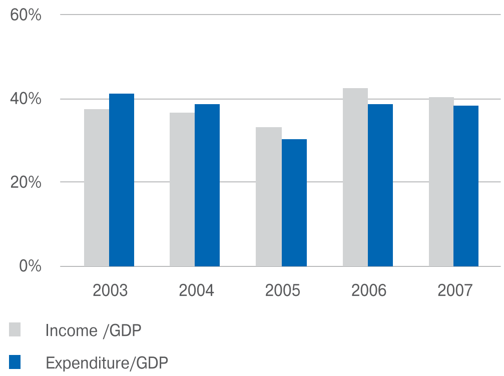
Fiscal expenditure aggregated MNT 1.3 trillion (equivalent to US$ 1.1 billion) in 2006 and MNT 1.7 trillion (equivalent to US$ 1.5 billion) in 2007, reflecting an expansionary policy focusing on social development, particularly, in the health and education sectors and improvements in infrastructure. Fiscal expenditure has constituted 36.6 per cent. of GDP in 2006 and 38.4 per cent. of GDP in 2007, considerably below the level of 42.2 per cent. prevailing in 2000.

From the macroeconomic perspective, the indicators remain very positive with a third consecutive year of budgetary surplus resulting in international reserves rising to record a level of US$ 972.4 million (equivalent to 6 months' imports); an increase of 41.5 per cent. over the previous year.

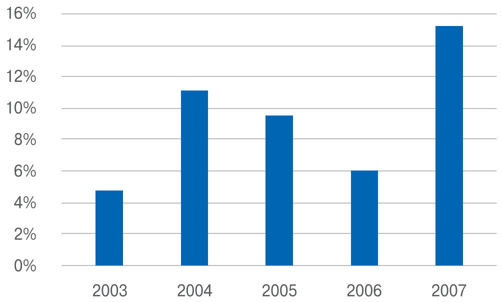
Government Finance (US$ Million)



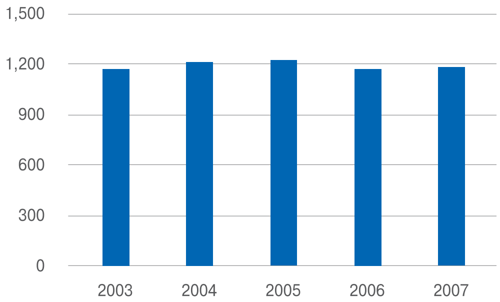
Government Finance / GDP Ratio (%)



Inflation (%)



Exchange Rate: USD/MNT



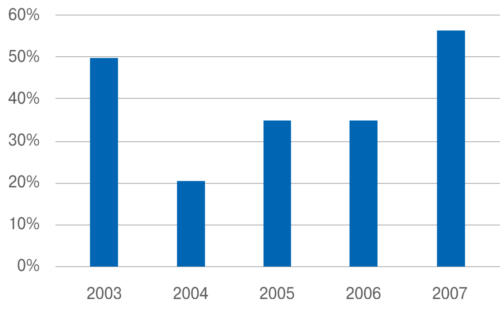
Offsetting this progress was an unwelcome increase in the rate of inflation which on a year on year basis had risen to the level of 15.1 per cent. by the end of 2007, the highest level of the decade and far above the rate of 6 per cent. realised in 2006 although the average increase throughout the year was contained at 9 per cent. More than two thirds of this inflation can be attributed to foodstuffs while oil prices only contributed modestly to this increase.

The Tugrug remained virtually constant against the U.S. dollar throughout the year fluctuating by only 0.4 per cent. despite the 15 per cent. fall in the value of the dollar measured against a global basket of currencies. Only the rising inflation rate gives cause for concern although this reflects the very high level of imported inflationary inevitable in such a liberalised economy with a high external trade dependency.

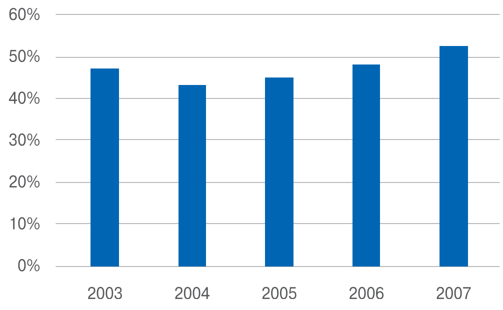
The strengthening of China's Renminbi and Russian Rouble and sharp appreciation in energy and soft commodity, particularly food grain, prices, meant that as much as 70 per cent. of the rise in inflation was attributable to exogenous forces.

The country has achieved a steadily increasing level of monetization with M2 (broad money supplying) rising by 56.3 per cent. during the year but still constituting only 52.7 per cent. of GDP, equivalent to US$ 2.1 billion while currency in circulation rose by 48.5 per cent. However, when compared with other emergent market economies at a similar stage of development, the level of monetization in Mongolia remains low.

M2 growth (%)

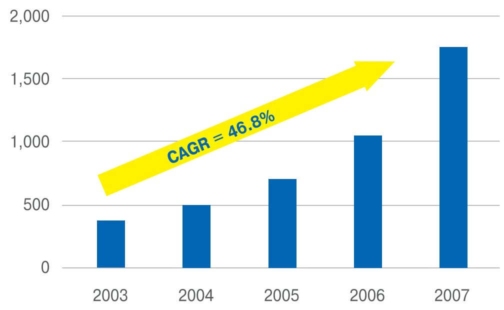


M2/GDP Ratio (%)

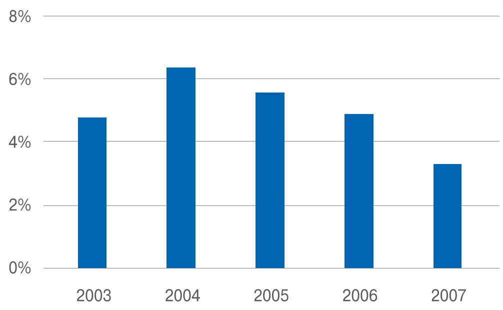


Total loans in the banking system reached US$ 1.8 billion, increasing by 67.4 per cent. and amounting to 45.1 per cent. of GDP in 2007. The ratio of non-performing loans has declined significantly to 3.31 per cent. in 2007, compared to the previous year, when it was 4.91 per cent.

Total Loans - Banking System (US$ Million)



NPL Ratio - Banking System (%)



The assets of the banking system have exhibited strong growth over the course of the past half decade, increasing by 41 per cent. in 2007, while the number of banks remained stable.

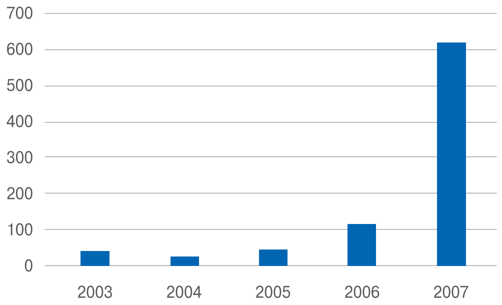
Greater competitive forces led to a modest decline in real lending rates although this process showed signs of reversal as The Bank of Mongolia tightened monetary policy and increased Central Bank bill rates from 6.4 per cent. to 9.9 per cent. by the year end.

Main Indicators of the Banking System	2000	2001	2002	2003	2004	2005	2006	2007
# of Banks	12	16	16	17	17	17	16	16
# of Bank Offices	457	538	595	635	682	731	832	981
# of Population per Bank Office	5,268	4,540	4,160	3,943	3,703	3,501	3,132	2,686
Total Assets (US$ Million)	206	302	438	707	917	1,298	1,992	2,892
Total Deposits per person (MNT '000)	38	55	88	145	204	270	374	556
Total Assets to GDP Ratio	23.1%	29.4%	39.7%	60.6%	59.5%	70.0%	62.5%	74.2%
Total Loans to GDP Ratio	6.6%	12.1%	18.7%	32.5%	33.5%	36.8%	32.9%	45.1%
Total Capital to GDP Ratio	3.1%	4.2%	5.0%	8.1%	9.3%	9.1%	7.9%	8.3%
Non-performing Loans	21.9%	6.7%	5.1%	4.8%	6.4%	5.6%	4.9%	3.3%
Average Capital Adequacy	27.0%	24.6%	20.0%	20.4%	20.0%	18.2%	18.1%	14.2%
State Ownership in Banks	56.6%	48.0%	22.1%	7.3%	6.0%	4.9%	-	-
# of Non-bank Financial Institutions	7	28	66	88	114	150	163	137

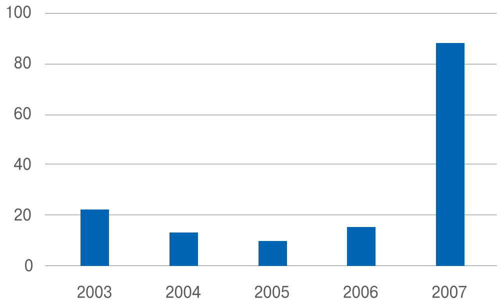
During 2007, companies with a market value of US$ 39.6 million were listed on in the Mongolian Stock Exchange while the total volume of stocks and bonds traded reached US$ 87.5 million, an increase of 5.7 times that of 2006 turnover.

At the end of 2007, the total market capitalization was equivalent to US$ 613.3 million, having risen by 5.5 times over the end 2006 level of US$ 112.6 million.

Mongolian Stock Exchange - Total Market Capitalization (US$ Million)



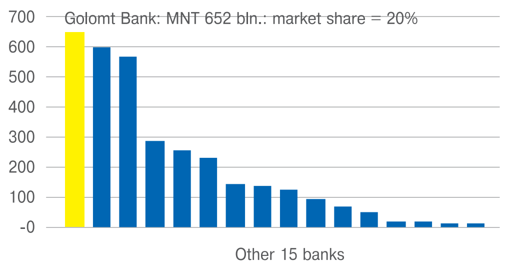
Mongolian Stock Exchange - Total Trading Volume (US$ Million)



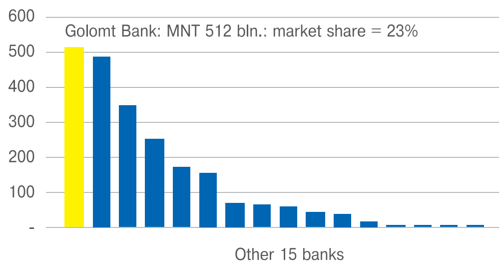
GOLOMT BANK IN THE BANKING SYSTEM

During 2007 the Bank became the largest bank in Mongolia when measured by total assets and deposits. The following figures demonstrate the comparative advantage enjoyed by the Bank in all key elements of the domestic banking system:

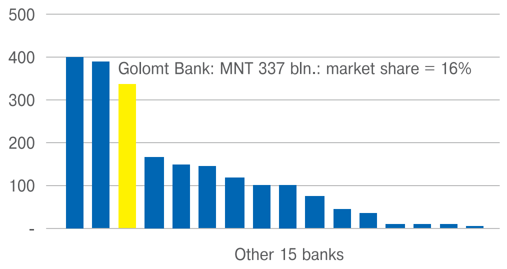
Total Assets



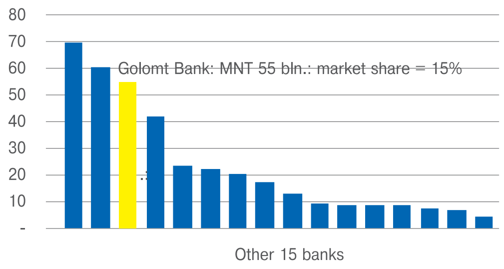
Total Deposits



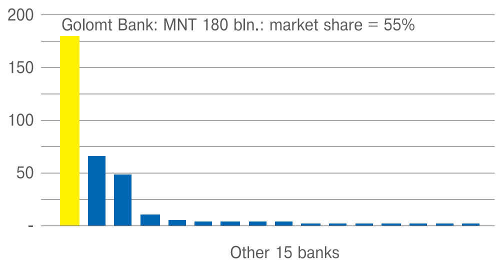
Total Loans



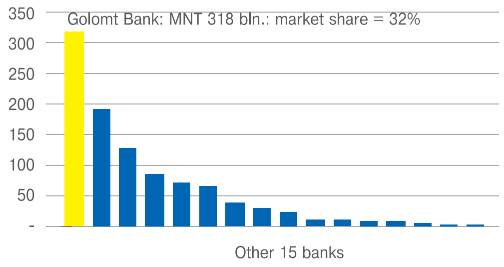
Total Capital



Total Deposits with Foreign Banks and Financial Institutions



Liquid Assets



GOLOMT BANK

Vision

To be the market leader in Mongolia respected for our professionalism, integrity and intrinsic strengths while operating at the highest levels of international and best industry standards.

Mission

To be the leading, professional bank in Mongolia with high operating efficiency and advanced social responsibility, committed to providing the full range of banking and financial products to all our valued customers with the highest possible levels of service standards.

"Robust financial stability and growth"

ORGANIZATIONAL DEVELOPMENT

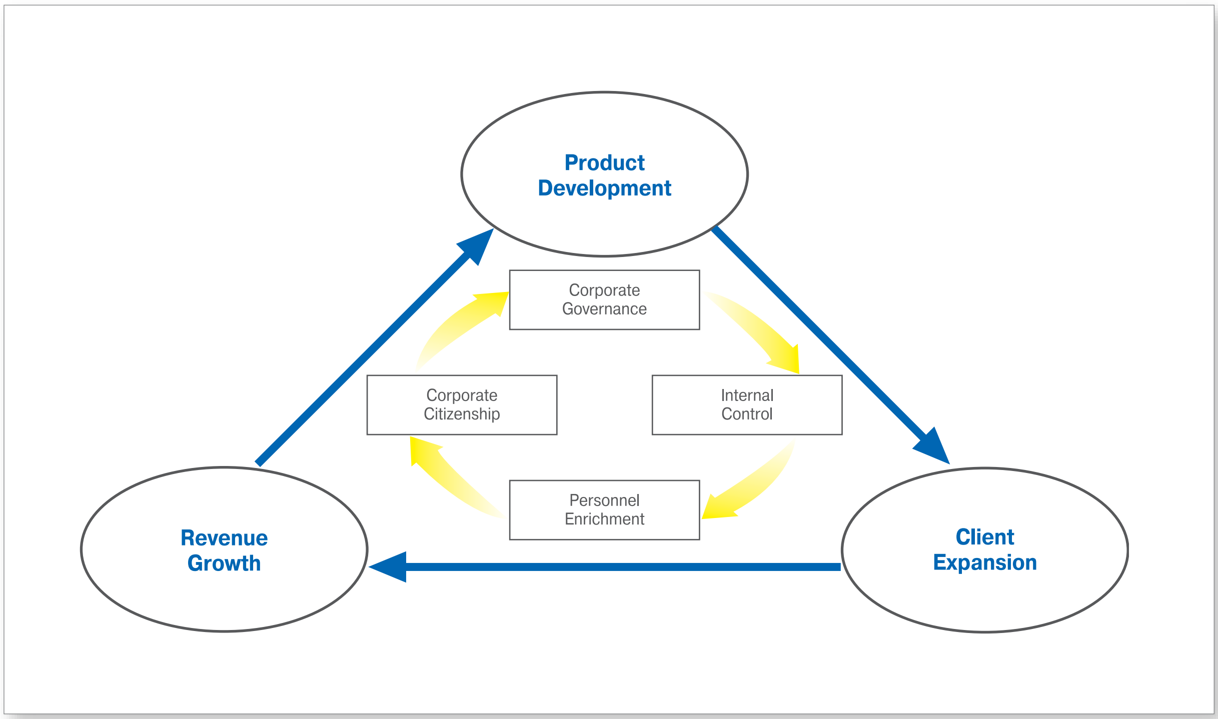
VISION AND MISSION

VISION

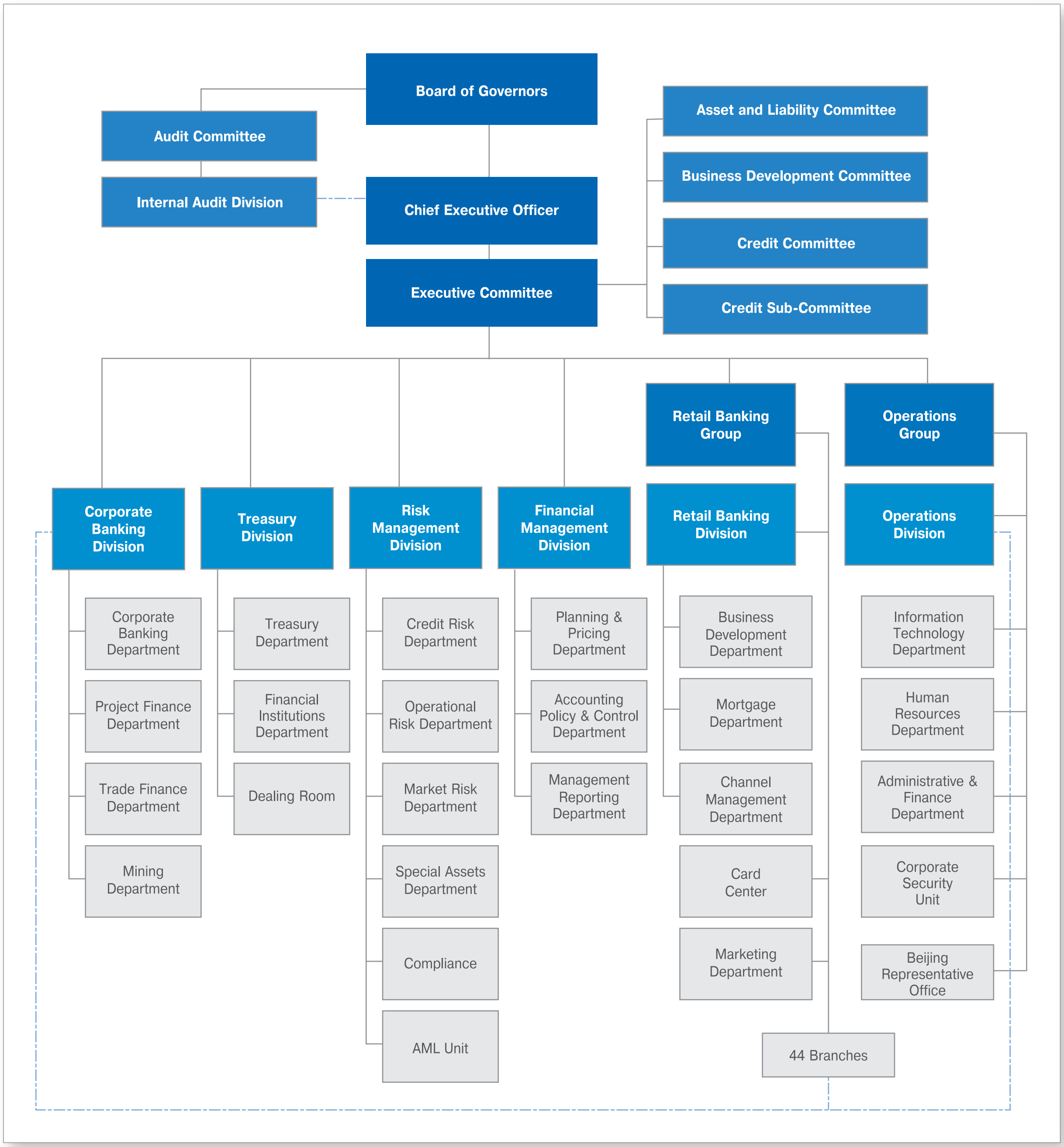
To be the market leader in Mongolia respected for our professionalism, integrity and intrinsic strengths while operating at the highest levels of international and best industry standards.

MISSION

To be the leading, professional bank in Mongolia with high operating efficiency and advanced social responsibility, committed to providing the full range of banking and financial products to all our valued customers with the highest possible levels of service standards.



ORGANIZATION STRUCTURE



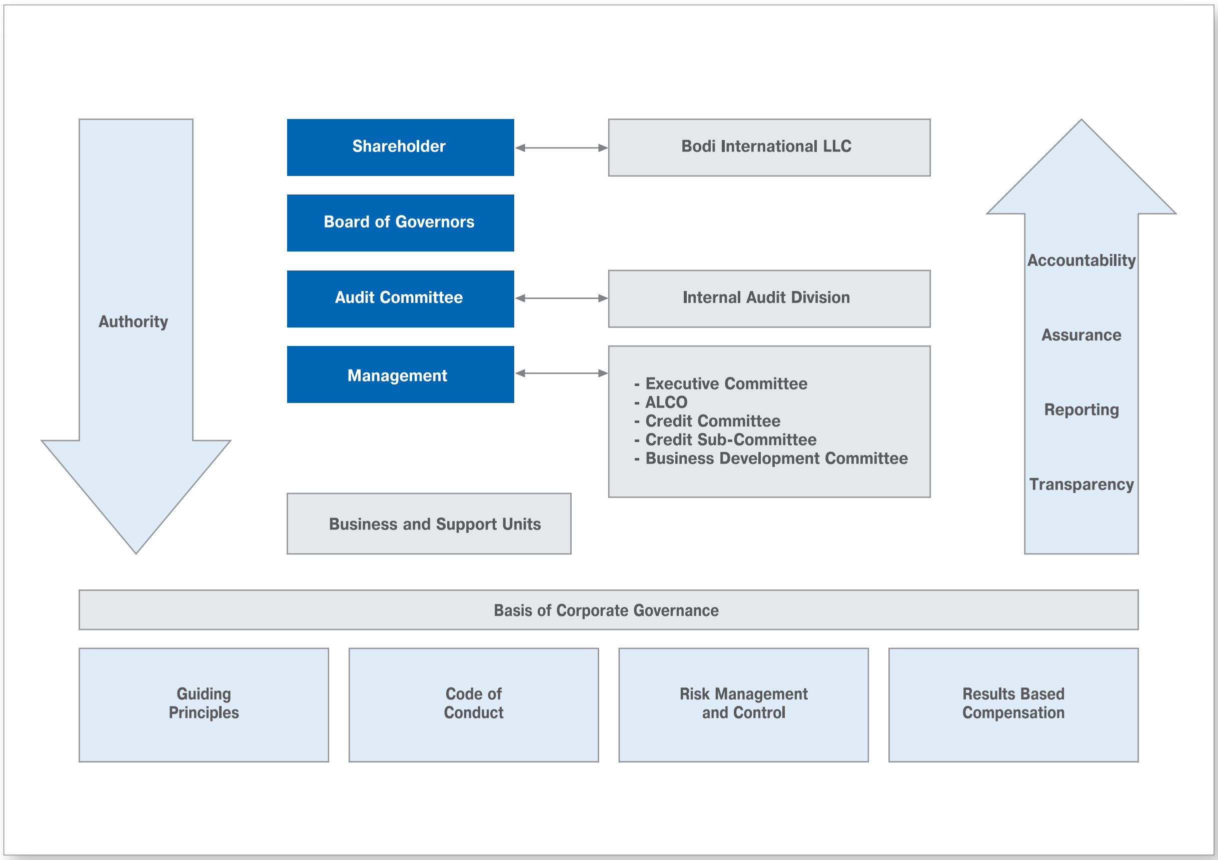
During the year, the Bank successfully implemented a new organization structure. This was initiated in order to maintain our leading position in the financial sector enabling us to better adapt to the emerging trends and developments in Mongolia's macroeconomic environment as well as reflecting the increased impact of globalisation upon the Bank's business and product mix.

The new Organization Structure has succeeded in better aligning our resources, delivery and control procedures and was accompanied by the formalisation of policies and procedures addressing all major aspects of the Bank's business.

CORPORATE GOVERNANCE

Golomt Bank aspires to the highest standards of Corporate Governance and best international practice reflecting the laws of Mongolia and The Bank of Mongolia directives, as well as our own highly developed internal policies, rules and procedures.

In implementing the highest standards of Corporate Governance, we adhere to four key principles: comprising a robust relationship with our Shareholder; effective collaboration between the Board of Governors and the Audit Committee; results-based compensation and bonus mechanisms; and transparency and openness throughout every aspect of our operations.



From left:
***N. Natsagdorj** - Vice President & Director Retail Banking Division*
***M. Chimegmunkh** - Vice President & Director Financial Management Division*
***G. Ganbold** - Executive Vice President & Chief Operating Officer*
***John P. Finigan** - Chief Executive Officer*
***L. Oyun-Erdene** - Vice President & Director Corporate Banking Division*
***G. Gankhuyag** - Vice President & Director Treasury Division*

MANAGEMENT TEAM

from left:
B. Battsetseg – *Director Mortgage Department*
G. Tegshburen – *Director Human Resources Department*
N. Tserendavaa – *Director Information Technology Department*
M. Chingun – *Director Risk Management Division*
O. Khayankhyarvaa – *Director Administrative & Finance Department*
Ts. Baigalmaa – *Director Business Development Department*

from left:
G. Aruinbayar *– Director Card Clearing & Processing Department*
D. Batbileg *– Director Card Center*
S. Munkhtuya *– Director Accounting Policy & Control Department*
B. Batnyagt *– Director Marketing Department*
J. Ganbat *– Director Internal Audit Division*
D. Sugar *– Director Operations Division*

SHAREHOLDER

Golomt Bank is a Limited Liability Company with a sole owner, Bodi International LLC, incorporated in Mongolia.

BOARD OF GOVERNORS

The Board of Governors is appointed by the Shareholder and consists of three members who have extensive business and banking experience. The Board approves the Bank's budget, business and strategic plans, appoints senior managers and the external auditors, and approves the Bank's structure and organization, while conducting permanent oversight and providing the necessary support for the Bank's operations.

AUDIT COMMITTEE

The Audit Committee is appointed by the Board of Governors and reports directly to the Board in order to review the Bank's financial position and to make recommendations on all financial matters including assessing the integrity and effectiveness of accounting, financial, compliance and other control systems. The Committee works in close collaboration with the Internal Audit Division of the Bank and the External Auditors.

MANAGEMENT TEAM

As is reflected in both the operating and financial results, the Bank has a highly professional and experienced management team, a number of whom have served the Bank since its inception and early years. The Organization Structure Chart reflects the composition of the management team with the Chief Executive Officer and Chief Operating Officer supported by Vice Presidents, Directors of Divisions, and Departmental Heads.

Board of Governors	**D. Bayasgalan** - Chairman **L. Boldkhuyag** **M. Munkhchuluun**
Audit Commiitee	**S. Bayantsogt** **B. Molomjamts** **Masaru Kubota (Japanese)** **Jeremy Denton Clark (British)**

Senior Management

John P. Finigan	Chief Executive Officer (British)
G. Ganbold	Executive Vice President & Chief Operating Officer
G. Gankhuyag	VP & Director Treasury Division
M. Chimegmunkh	VP & Director Financial Management Division
L. Oyun-Erdene	VP& Director Corporate Banking Division
N. Natsagdorj	VP& Director Retail Banking Division
M. Chingun	Director Risk Management Division
J. Ganbat	Director Internal Audit Division
D. Sugar	Director Operations Division
N. Tserendavaa	Director Information Technology Department
D. Batbileg	Director Card Center
B. Enkhtuya	Director Marketing Department

GOLOMT BANK

In 2007, the Bank recruited 180 new staff members increasing its family size to 728 people in total. Golomt bank endeavors to remain a "Learning organization" focused on improving employees' knowledge and professional expertise.

"Attracting, developing and retaining talented people"

HUMAN RESOURCES

At the end of 2007, the Bank had 728 employees, a 33 per cent. increase in the workforce since the previous year end. Of the total number of recent recruits, 70 per cent. were for staff positions at branch and sub-branch locations while 30 per cent. were recruited within the Head Office. 88 per cent. of the Bank's staff have a university degree, of which 70 per cent. hold a degree in the professions of banking and finance, economics or business administration.

	2006	2007
Number of employees	**548**	**728**
Offices	64 %	57%
Head Office	36 %	43%
Gender ratio (Male/Female)	**30-70**	**29-71**
Offices	23-77	25-75
Head Office	42-58	41-59
Middle Management	40-60	40-60
Senior Management	50-50	50-50
Professional level		
University Degree	87%	88%
Vocational/Technical School	13%	12%
Age		
<25	31%	33%
25–34	53%	51%
35–44	12%	12%
45–54	3%	3%
>54	1%	1%

In 2007, three staff members of the Bank were awarded the title of "Best Employees of the Banking Sector" by The Bank of Mongolia, our Central Bank, while our long-serving Chief Operating Officer, Mr. G. Ganbold, was awarded the Honorary Labor Medal by President Enkhbayar, in recognition of his enduring contribution to public and private sector development in Mongolia. We share in Mr. Ganbold's justifiable pride in the service which he has contributed to the Motherland of Mongolia and to Golomt Bank.

Award by President Enkhbayar of the President's National Productivity Award 2007 to CEO and COO

TRAINING AND DEVELOPMENT

The Bank is totally dedicated to remaining a "Learning Organization" focused on improving our employees knowledge and professional expertise.

The Board of Governors and management consider the welfare of the Bank's employees paramount to effective human resources management and have always taken measures to promote the welfare of employees as a corner-stone of the Bank's corporate culture.

The Bank's performance-based rewards policy has attracted a younger generation of employees; the average age of all Bank staff being 29 years old. Management seeks to foster a supportive environment for the development of junior employees, implementing human resources and mentoring policies aimed at facilitating bottom-up initiatives and providing maximum opportunities for stimulating and rewarding career development.

The Bank invests heavily in staff training and development. The Bank places great emphasis upon training, expending MNT 229 million upon direct training costs in 2007. This entailed 1,263 specific training programmes which is equivalent to 175 per cent. of the average staff complement for the year. Each employee received an average of 23.5 hours training during the year. The principal areas of focus were:

- Customer service and efficiency;
- Financial analysis;
- Credit;
- Personnel management and team leadership;
- Banking operations;
- Anti-Money Laundering.

	2006	2007
Total training expense (MNT '000)	94,533	228,939
Training expense per employee (MNT '000)	199	345
Training hours per employee	21.2	23.5
Training participants	719	1,263

The Sports Club, established for the purpose of promoting employees health and improving corporate culture, had another very active year, organizing diverse sporting and cultural events including the now-traditional hiking expedition in which 120 employees walked for over 60 kilometers in mid summer, just after the national "Naadam" festival. In addition, the Club organized popular sporting events such as basketball, volleyball, football, and social activities such as snow festivals and camping among the employees, contributing to their sporting prowess and physical fitness.

INFRASTRUCTURE

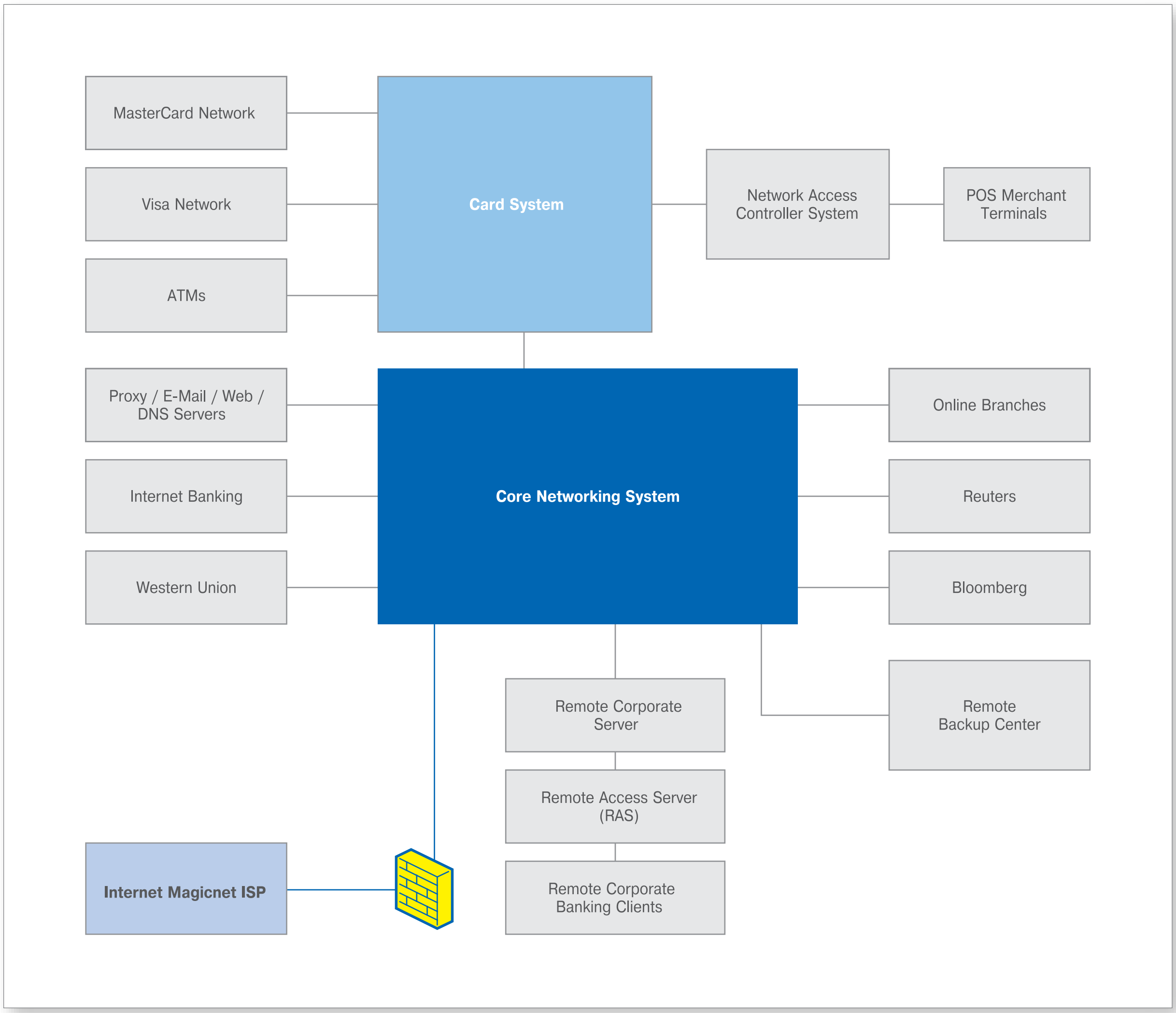
INFORMATION TECHNOLOGY

Information technology is fundamental to the provision of timely and cost effective delivery of products and services to our customers; to the integrity of the payments transmission processes; to automation and to the continuing development and enhancement of a robust control environment. Key initiatives undertaken and concluded during 2007 included:

- Web Software Renewal
- Thales e-Security and Tridium Company SafeSign solution (e-Token) to provide enhanced security for our E-Banking operations
- Landline VoIP (Voice Over Internet Protocol) system.

The Bank continues to be committed to an extensive programme of IT related capital expenditure in order to sustain our market leadership position and to provide optimum service standards to our valued client base at the lowest possible cost.

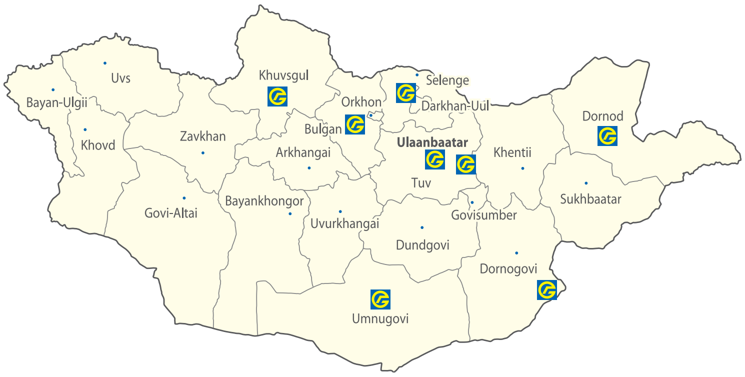
IT ARCHITECTURE



BRANCH NETWORK

The strategy of Golomt Bank is to establish and develop branches in areas with high population density and solid prospects for sustained growth.

The Bank expanded its branch network by twelve offices or 38 per cent. in 2007 and introduced fully automated "Auto-Banking Services" at two major branches.

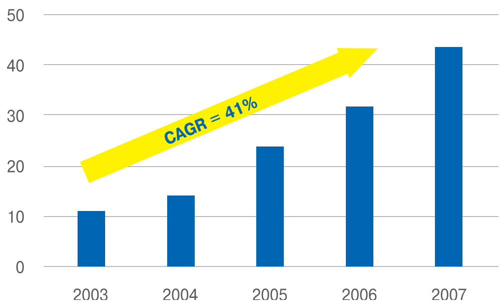


Golomt Bank has always been a pioneer in the introduction of electronic banking services and complementary delivery channels. As the financial infrastructure develops, customers are increasingly migrating to electronic banking services, where transactions increased by over 30 per cent. by volume and 46 per cent. by value compared to the previous year.

RETAIL BUSINESS

Against the background of sustained economic development and expansion of the middle income sector, the Bank has concentrated upon the progressive but prudent expansion of its retail product matrix and delivery channels so as to deliver the widest range of services in the most efficient and convenient fashion and at the lowest cost. Retail banking represents 18 per cent. of total assets while contributing 38 per cent. when measured in terms of gross revenue.

Branch Network

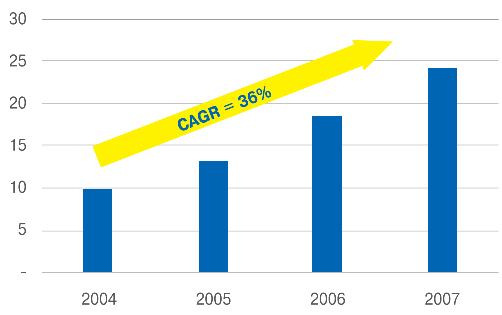


SME LOANS

SMEs constitute a vital element of the country's economic growth accordingly the Bank is committed to providing a comprehensive range of service and credit offerings to this important business sector. During the year, SME loans grew by 31 per cent. with the majority being granted to trade, processing industry and construction sectors.

In line with the intensive economic development and rapid growth of the mining and construction sectors, the Bank introduced leasing finance for capital equipment and machinery for these important market segments.

SME Loans (MNT Billion)



In addition to providing SME and business loans from our own resources, the Bank collaborates with ADB in extending 6 year "Employment Generation Loans" and the International Development Agency, an affiliate of the World Bank, in cooperation with the Ministry of Finance, to provide medium to long-term project loans on concessionary terms to the steadily expanding SME sector.

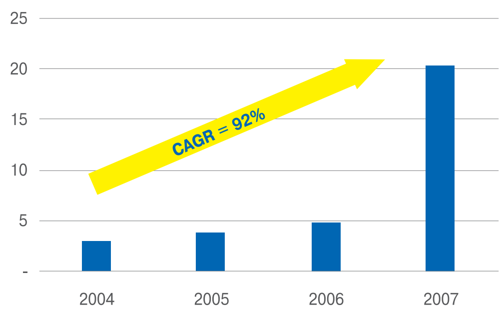
CONSUMER LOANS

Reflecting the considerable investment into the branch network in recent years the Retail Banking sector exhibited strong growth throughout 2007 rising by over 300 per cent.

The Bank cooperates with around 400 retailers of vehicles, furniture, appliances and electronic goods in offering its customers opportunities to purchase their vehicles and household equipment supported by bank finance.

During 2007 the Bank initiated an important student loan programme to finance tuition cost of students studying in Mongolia or abroad by offering loans up to US$ 20,000 in order to facilitate the development of the next generation of the country's leaders and entrepreneurs.

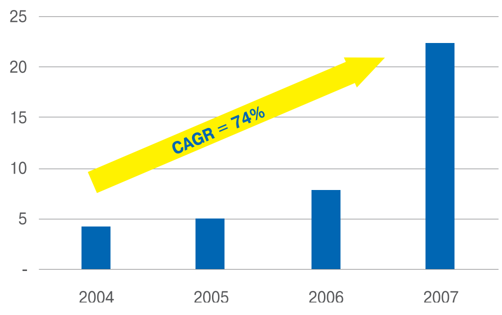
Consumer Loans (MNT Billion)



MORTGAGE LOANS

The volume of mortgage loans provided by the Bank in 2007 increased by 187 per cent. reflecting the underlying rapid role of growth in home ownership by all elements of Mongolian society. This near tripling of the portfolio size was achieved while maintaining the highest standards of loan underwriting with no compromise upon loan quality standards, levels of deposit, and percentages of household income to support sustainable debt service levels.

Mortgage Loans (MNT Billion)



GOLOMT BANK

In 2007, we repeatedly decreased loan interest rates for both business and consumer loans; actively participated in the "40,000 Housing Units" programme implemented by the Government of Mongolia with the aim of providing housing facilities to people with low and middle incomes; contributed to creating new jobs, and implemented a wide range of customer-oriented activities.

"Helping others grow as we grow"

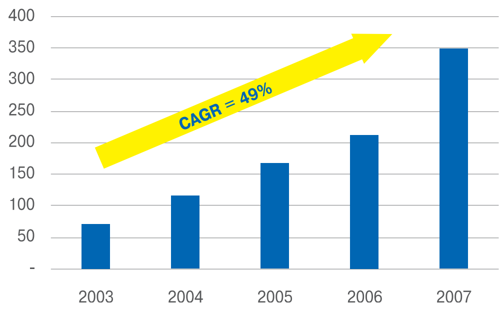
The Bank was selected as an implementing bank of the "40,000 Housing Units" programme of the Mongolian Government aimed at providing housing facilities to low and middle income citizens under the auspices of the Housing Finance Cooperation. The Bank was the first to fully deploy its allotment of funds under this important socio-economic programme.

DEPOSITS

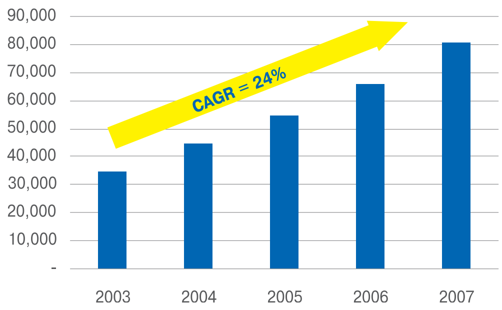
The Bank extends a comprehensive range of deposit products such as demand, time, floating interest rate, prepaid interest, savings, "Golden Key" savings (where a certain percentage of the interest is donated for childrens' welfare causes) and saving certificates in both domestic and foreign currencies.

During the course of the year, retail deposits increased by 64 per cent.

Individual Deposits (MNT Billion)



Individual Depositors

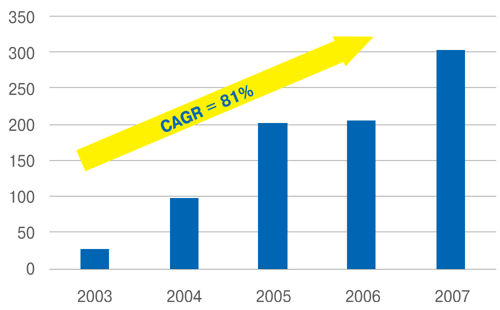


CARD SERVICES

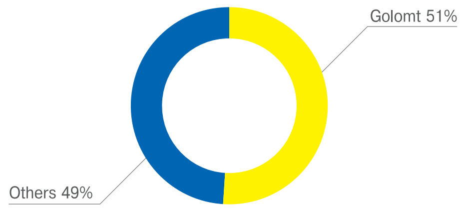
During 2007 the Bank launched the MasterCard Platinum card, together with the Mongolian National Chamber of Commerce and Industry's Golden Visa card.

The number of cardholders increased by 47 per cent., transaction amounts increased by 76 per cent. with greatly increased volumes of ATM and POS transactions as electronic banking progressively expands.

Cardholders ('000s)



Banking System Card Transactions



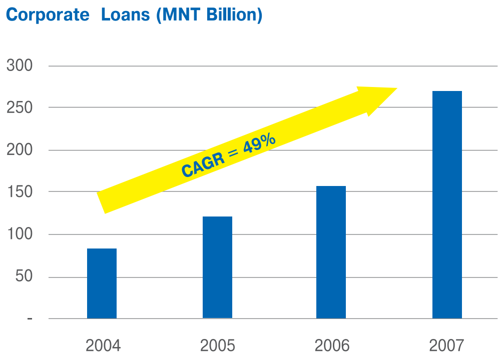
Source: The Bank of Mongolia Research Paper "Use of Plastic Cards in Mongolia" September, 2007

CORPORATE BUSINESS

Golomt Bank offers six principal categories of corporate services: current accounts, deposit facilities, loan products and trade finance, foreign exchange and remittance facilities.

Reflecting its heritage and traditional strength as the bank of choice for the business sector, the Bank is involved through the provision of operating accounts and credit facilities in virtually all the major business projects in Mongolia.

During 2007, corporate credit facilities grew by 73.5 per cent. to reach to MNT 269 billion. The Bank has focused on improvement of our business model and investment to build scale and in depth expertise. The new organizational structure has facilitated the setting of strategic objectives and aligning people and processes to offer comprehensive financial services and effective operations to all our valued corporate clients, both domestic and international.



We continue to seek opportunities to assist our corporate customers by collaborating with domestic and international organizations such as the Government of Mongolia, the Mongolian National Chamber of Commerce and Industry, the World Bank, International Development Agency, International Finance Corporation and Asian Development Bank. During the year the Bank was selected, as on-lending bank for the second time under the Private Sector Development Credit Programme of the International Development Agency, an affiliate of the World Bank, to extend low interest, longer-term loans to qualifying applicants.

With the progressive expansion of our capital base through a combination of organic growth and inflow of Tier 2 capital, the Bank's legal lending limit to individual borrowers continues to increase.

To supplement its own in-house training programmes, the Corporate Bank offers training programmes to its customers to develop their operational and financial management capabilities including guidance developing business plans, cash-flow modeling and preparing effective credit applications. During the year 2007, the Bank organized 19 workshops attended by over 440 business owners and their employees.

Loans to Customers (MNT Billion)	2004	2005	2006	2007
Corporate lending	82	119	155	269
SME lending	10	13	18	24
Consumer lending	3	4	5	20
Residential mortgages	4	5	8	22
Total	99	141	186	335

INTERNATIONAL PAYMENTS AND SETTLEMENTS

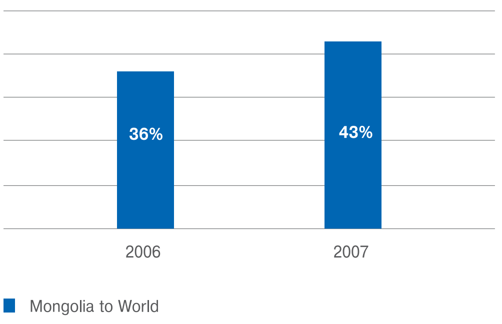
International Payments and Settlements are increasing at a rapid pace reflecting the dramatic increase in foreign trade which, over the past five years has grown at a compound rate of over 30 per cent. Meanwhile many Mongolians work and live abroad, and foreign companies are investing into Mongolia. Accordingly, international remittance and transfer flows are rapidly increasing in terms of volume, value and frequency.

Golomt Bank enjoys a wide range of correspondent banking relationships with many of the world's leading banks. In 2007 alone, we established new correspondent relationships with major international banks such as Citibank, CIBC, ING Bank, Kazkommertsbank, Vneshtorgbank, and Bank of China in order to meet the ever growing needs of our customers and their needs for settlement in various currencies.

In addition to the conventional interbank electronic transfers through the SWIFT system, the Bank offers payment transmission services (on a two way basis into and out from Mongolia) through Western Union. Western Union is one of the world's most widely used and renowned money transfer companies with operations in more than 200 countries. It offers a fast, convenient, flexible and reliable service. Benefits of using Western Union include being able to receive money virtually anywhere in the world within just a few minutes, while enjoying a totally secure and discrete system that ensures delivery to the correct counterparty.

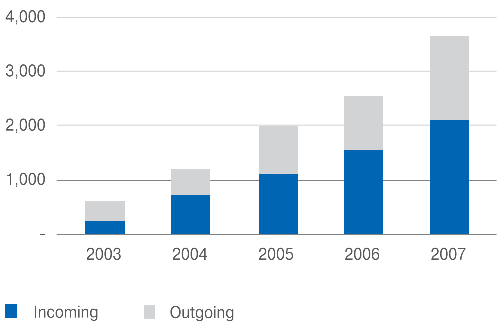
During the year the total volume of customer incoming and outgoing international remittances/settlements using our traditional correspondent banking network and Western Union Money Transfer services increased by 45 per cent. to reach MNT 3.7 billion, which is equal to 79 per cent. of the Mongolia's foreign trade.

Golomt Bank
SWIFT Transactions, Market Share (%)



Source: Wachovia Bank, Global Payments Seminar, January, 2008

Golomt Bank
Foreign Currency Settlements (MNT Billion)



During 2007, 52 per cent. of Mongolia's foreign trade was conducted with China, making the Yuan a vitally important component of international payments into and out from Mongolia. Golomt Bank is the leading bank in terms of Yuan transfers, accounting for over 70 per cent. of total Yuan outgoing and incoming transfers. In 2007 our CNY settlements increased by 51 per cent.

The Bank's role as the counterpart of choice for interbank payments and settlements is demonstrated by our processing of 43 per cent. of the total Mongolian outgoing SWIFT transactions and 37 per cent. of incoming SWIFT transactions during 2007. Measured in volume terms, the Bank's important trade finance operations increased by 83 per cent. compared to 2006.

TREASURY

The Treasury Division manages the Bank's balance sheet, interest rate and liquidity management policies to achieve equilibrium and optimise risk adjusted returns in accordance with policies and directions established by the ALCO. Traditional conservatism in ALCO management remains very much one of the hallmarks of the Bank and consequent sub-optimum leverage provides the desirable combination of assured second line liquidity accompanied by considerable business expansion potential.

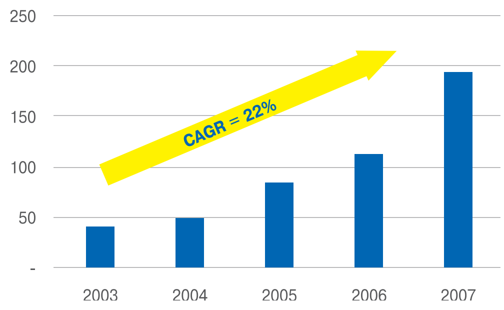
MONEY MARKET

As the largest and most highly liquid bank, Golomt Bank remains a dominant force as a net funder to the inter-bank market. The Bank actively participates in Government bond and Central Bank bills auctions and trading acquiring MNT 10.1 billion or 25 per cent. of the total issuance aggregating MNT 40.9 billion Treasury Bills and 31 per cent or MNT 1.3 trillion bonds out of the total issue of MNT 4.2 trillion of Central Bank Bills issued during 2007.

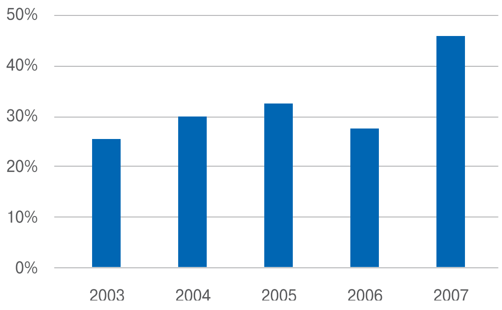
FOREIGN ASSETS AND FOREX DEALING

At the end of the year, the aggregate foreign assets of the Mongolian banking system reached MNT 423.6 billion; 46 per cent. of which were held by Golomt Bank making the Bank by far the largest holder of foreign assets within the domestic financial system. Placements with foreign banks rated A or above constituted 93 per cent. of the foreign assets while bank notes represented the 7 per cent. residue.

Golomt Bank
Foreign Assets (MNT Billion)



Golomt Bank
Market Share of Banking System Foreign Assets



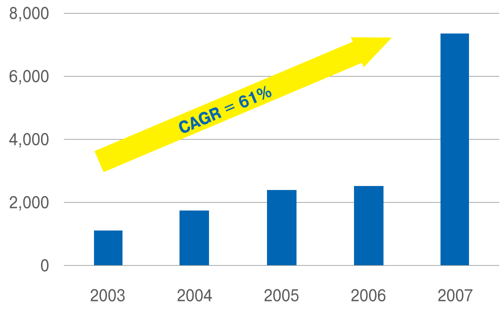
FINANCIAL REVIEW

The Bank once again delivered record profits in 2007 reflecting the constant improvement in operating performance which has witnessed profits rise almost seven-fold over the past five years.

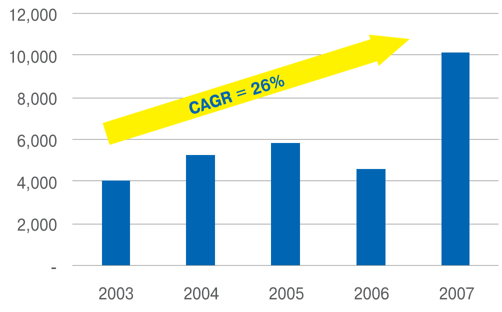
Total assets grew from MNT 353.2 billion by MNT 298.9 billion to reach MNT 652 billion, an increase of 85 per cent. As a result, the Bank became the largest bank in Mongolia when measured by total assets as well as total deposits.

Higher revenues were generated in almost all business areas, which resulted in a significant increase in profitability. Post tax return on average equity was 17.3 per cent. in 2007, a substantial improvement over the level of 10.7 per cent. attained in 2006 while return on average assets doubled, rising by 80 basis points to reach 1.6 per cent.

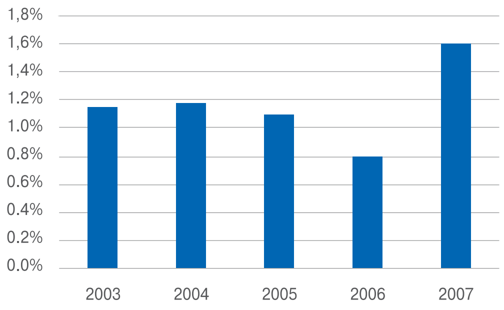
Post Tax Profit (MNT Million)



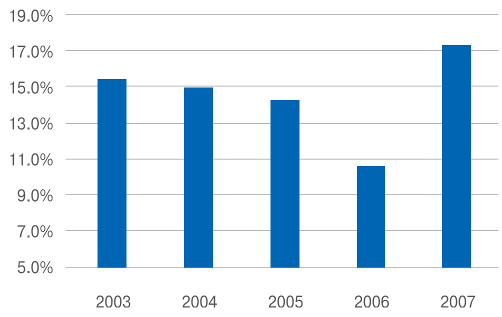
Average Profit per Employee (MNT Thousand)



Return on Average Assets (%)



Return on Average Equity (%)



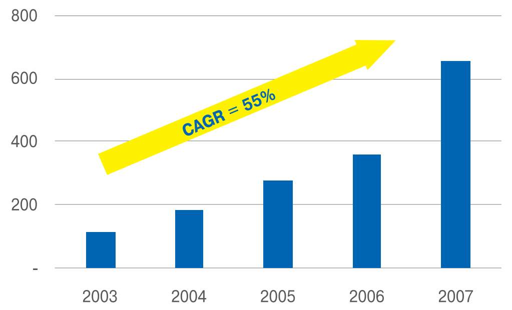
Customer deposits increased by MNT 228.8 billion to reach MNT 512.5 billion, an increase of 81 per cent, while loans and advances to customers increased by 85 per cent. (MNT 148.3 billion) to reach MNT 323 billion.

Notwithstanding this very significant increase in the risk asset portfolio, the advances/deposits ratio remained at a very conservative level of 63 per cent. at the year end, only marginally above the 2006 year end level of 62 per cent.

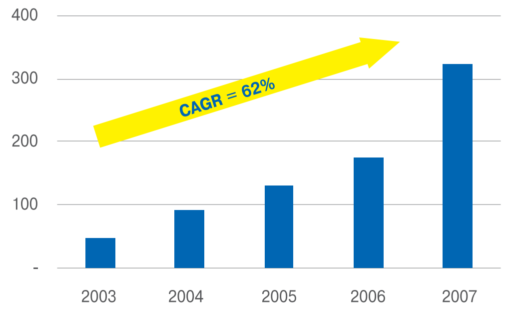
The Bank's reserve assets rose by 87 per cent. amounting to MNT 146.4 billion from MNT 169.2 billion to reach MNT 315.6 billion.

These results reflected the overall ALCO strategy, which places great emphasis upon preserving liquidity in all foreseeable circumstances. As a result, the Bank's liquidity position, computed in accordance with The Bank of Mongolia regulations, stood at a very robust level of 49.3 per cent. having maintained an average level of 53 per cent. throughout the reporting year.

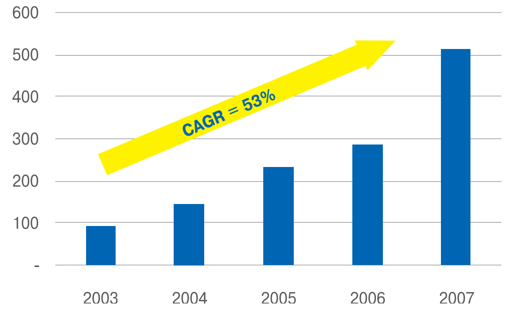
Total Assets (MNT Billion)



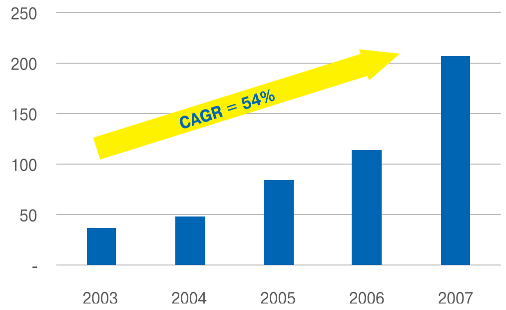
Net Loans (MNT Billion)



Deposits from Customers (MNT Billion)



Deposits and Placements with other Financial Institutions (MNT Billion)



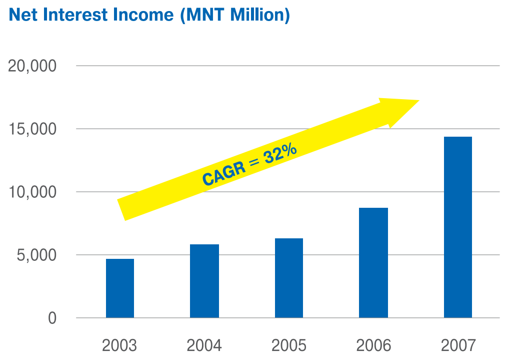
Net interest income grew by MNT 5.67 billion (65 per cent.) to reach MNT 14.3 billion reflecting a corresponding increase of 85 per cent. in the overall risk asset portfolio. Loan interest income increased by 14 billion (63 per cent.) to reach MNT 36.6 billion, while deposit interest expense increased by 11 billion (62 per cent.) to reach MNT 28 billion.

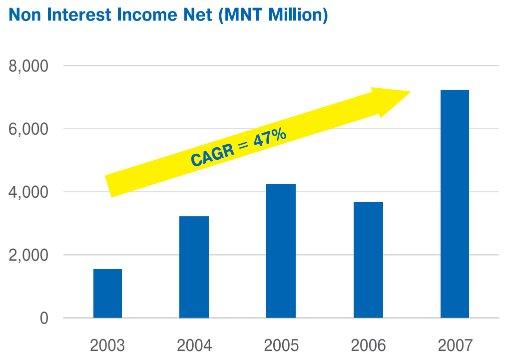
Gains from the Bank's portfolio of securities available for sale grew by MNT 1.7 billion (373 per cent.) to reach MNT 2.2 billion, as a result of active primary participation and secondary trading in Treasury and Central Bank bills.

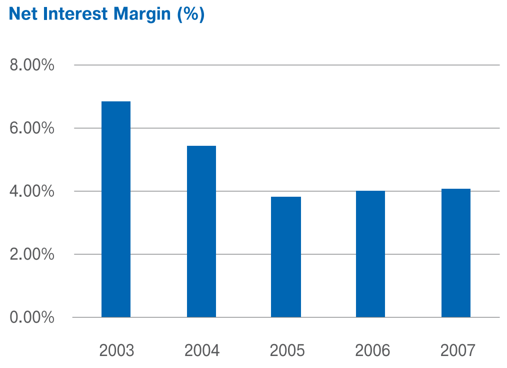
Non-asset based revenues, computed on a net basis, rose by 96 per cent. (MNT 3.5 billion) to reach MNT 7.2 billion, due primarily to:

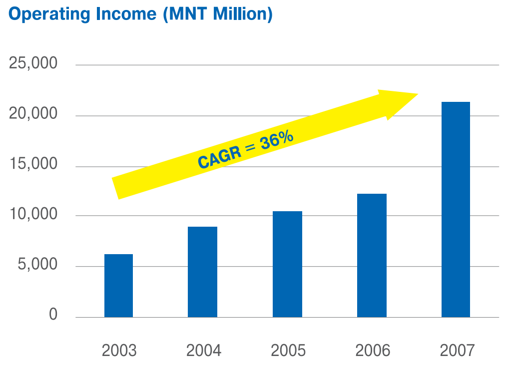
- Account service fees and commission income growing by MNT 618 million (63 per cent.) resulting from new account growth and increased account usage;
- Credit related fees and commissions increasing by MNT 493 million (63 per cent.) reflecting growth within the overall loan portfolio;
- Remittance fees increasing by MNT 829 million, driven by strong results in international and domestic payment activity;
- Card service income increasing by MNT 98 million reflecting a 76 per cent. increase in card related transactions underpinned by a 47 per cent. increase in the number of cardholders.

In consequence operating income rose from MNT 12.4 billion to reach MNT 21.6 billion, an increase of 74 per cent. reflecting these broadly based improvements in both interest income and non-asset based revenues.





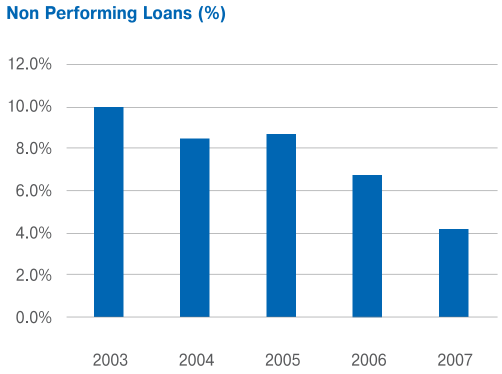




Specific provisions for loan loss, net of recoveries were MNT 2.3 billion, a reduction of 10 per cent. below the charge of MNT 2.6 billion in 2006. This amount reflected the combined input of the Bank's own rigorous internal risk portfolio evaluation, supplemented by the on-site inspection of The Bank of Mongolia, the Central Bank, and the observations of the external auditors.

76 per cent. of this charge related to the Corporate Loan portfolio with the balance spread across the SME and consumer lending portfolios.

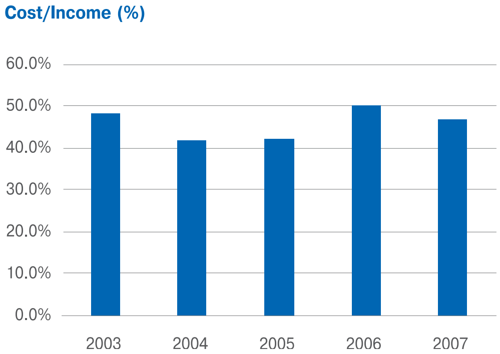
Total non-performing loans decreased to 4.2 per cent. from 6.7 per cent. in 2007, reflecting improvements in both credit approval process and progress upon recoveries to reduce the impaired and remedial risk portfolios. Aggregate provisions for individual and collective impairment equate to 102 per cent. of non-performing loans.

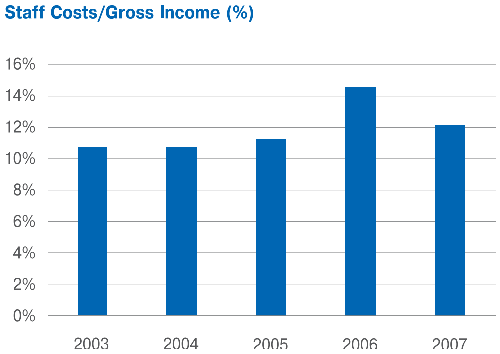


Operating expenses rose by MNT 3.9 billion (63 per cent.) to reach MNT 10.1 billion.

Staff costs increased by 45 per cent. while depreciation increased by 155 per cent. both these items reflecting the substantial commitment, which the Bank has made in augmenting both its personnel base and premises and equipment over recent years.

As a result the underlying efficiency ratio of costs to operating income showed marginal improvement to 47 per cent. from the level of 50 per cent. in 2006.



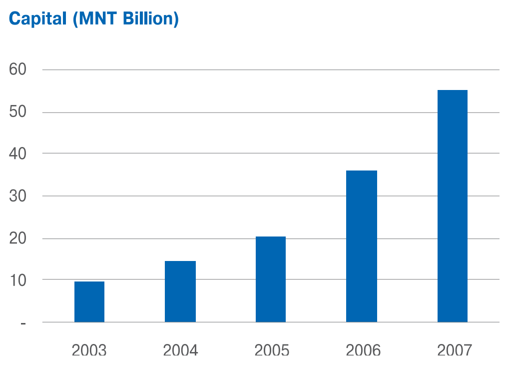


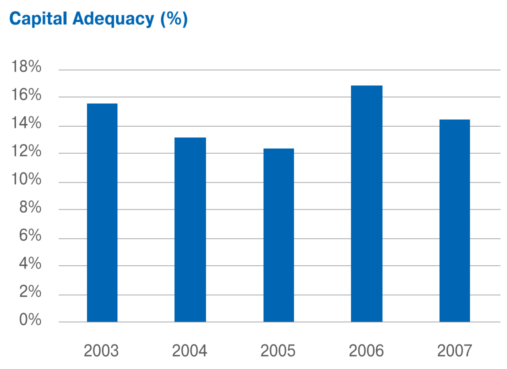
Income tax expense was MNT 1.8 billion in 2007 compared to MNT 1.1 billion in 2006, resulting in effective tax rates of 20 per cent. in 2007 and 31 per cent. in 2006. The decrease in the effective tax rate reflected amendments made to the Mongolian Corporate Income Tax Law, which became effective from 1st January, 2007. Corporate Income Tax was reduced from 30 per cent. to 25 per cent. for annual taxable incomes above MNT 3 billion (2006: MNT 100 million) and to 10 per cent. (2006: 15 per cent.) for annual taxable incomes up to MNT 3 billion (2006: MNT 100 million).

CAPITAL ADEQUACY

The Bank manages its capital base to achieve a balance between maintaining prudent capital ratios to support business growth and depositor confidence, and the objective of providing competitive returns to the Shareholder.

The capital account was significantly enhanced during the year through the combination of organic growth in the form of the MNT 7.4 billion post tax profit added to retained earnings and the subscription of a first US$ 10,000,000 tranche of the Credit Suisse, 5-year subordinated convertible loan. As a result total capital rose by 53 per cent. (MNT 19.1 billion) to reach MNT 54.9 billion, of which MNT 38.7 billion (69 per cent.) constitutes Tier 1 equity. This resulted in a year end core capital ratio of 10.14 per cent. and a risk weighted capital ratio of 14.39 per cent., over 4 per cent., above the Central Bank's stipulated minimum.





Signing of the Subordinated Convertible Loan Agreement with Credit Suisse in the presence of the Governor of The Bank of Mongolia, Mr. A. Batsukh.

FIVE YEAR FINANCIAL RESULTS

The following table shows the sustained progress achieved by the Bank over the five year period from January 2003 through until December 2007.

	2003	2004	2005	2006	2007
Balance Sheet Indicators (MNT Million)					
Total Assets	114,059	183,417	273,253	353,161	652,051
Deposits	93,220	147,125	232,838	283,707	512,485
Loans and Advances	46,789	90,943	131,817	174,700	323,026
Capital	9,793	14,590	20,275	35,794	54,871
Total Provisions	5,295	8,010	10,579	12,338	14,314
Profitability Indicators (MNT Million)					
Interest Income	10,157	14,111	19,632	26,955	44,564
Interest Expense	(5,466)	(8,374)	(13,284)	(18,283)	(30,228)
Net Interest Income	4,691	5,737	6,348	8,672	14,336
Non Interest Income (net)	1,557	3,200	4,249	3,698	7,231
Operating Expense	(3,011)	(3,714)	(4,450)	(6,179)	(10,078)
Provisions	(1,400)	(2,689)	(2,708)	(2,563)	(2,299)
Taxation	(747)	(782)	(1,057)	(1,109)	(1,811)
Post -Tax Profit	1,089	1,752	2,381	2,520	7,378
Financial Structure Ratios					
Deposits / Total Assets (%)	81.7%	80.2%	85.2%	80.3%	78.6%
Equity / Total Assets (%)	8.6%	8.0%	7.4%	8.9%	5.9%
Net Loans / Total Assets (%)	41.0%	49.6%	48.2%	49.5%	49.5%
Loans and Advances/Deposits (%)	50.2%	61.8%	56.6%	61.6%	63.0%
Non Performing Loans to Total Loans (%)	9.9%	8.4%	8.6%	6.7%	4.2%
Gearing Ratio (Times)	10.6	11.6	12.5	8.9	10.9
Profitability Ratios					
Return on Average Assets (%)	1.2%	1.2%	1.1%	0.8%	1.6%
Return on Average Equity (%)	15.5%	15.1%	14.4%	10.7%	17.3%
Net Interest Margin (%)	6.8%	5.4%	3.8%	4.0%	4.1%
Cost Income Ratio (%)	48.2%	41.6%	42.0%	50.0%	46.7%
Profit per Employee (MNT'000)	4,020	5,277	5,807	4,598	10,134
Prudential Ratios					
Capital Adequacy Ratio >10%	15%	13%	12%	17%	14%
Foreign Currency Exposure <+/-40%	28%	21%	32%	39.7%	8%
Single Borrower Exposure <20%	12%	19%	18%	18%	17%
Related Party Loans / Capital <5%	1%	1%	0.1%	2%	3%
Liquidity Ratio > 18%	58%	51%	52%	53%	49%
Fixed Assets Ratio <8%	2%	1%	1%	1%	1%

RISK MANAGEMENT AND CONTROL

The risks subsisting within Golomt Bank are credit, liquidity, interest rate, foreign exchange and operational risks.

Risk Management Division controls all risks on a centralised basis and reports independently to the Chief Executive Officer. The primary goal of risk management is to optimize returns at the appropriate levels of risk tolerance approved by the Board of Governors and maximize the bank's profitability by capital allocation into balanced business segments through a process of ongoing identification, measurement, mitigation and monitoring.

RISK RESPONSIBILITIES

In order to address the risk elements inherent in the business and operations of the Bank, a clearly defined risk management structure is in place to ensure adequate oversight:

- The Board of Governors is responsible for the overall risk management approach and for approving the risk strategies and principles that establish the objectives guiding all the Bank's activities and implementing the necessary policies and procedures. The Board of Governors, the Audit Committee, ALCO and Credit Committees each assess and report regularly on risk profiles.

- The Committees with assistance of the Risk Management Division have overall responsibility for the evolution of the risk strategy and implemention principles.

- Each Division is responsible for the identification and management of its own risk profile.

- Risk Management Division is responsible for implementing and maintaining compliance with risk related policies and procedures across the Bank to ensure an independent control process.

- Internal Audit Division independently audits the adequacy and effectiveness of the risk management, control and governance processes, and reports to the Audit Committee which, in turn, reports to the Board of Governors.

RISK APPETITE AND RISK TOLERANCE

Risk appetite is the amount of risk on a broad level the Bank is willing to accept in pursuit of its strategic and financial objectives. Risk tolerance measures the Bank's ability to withstand a given quality of losses associated with specific risk factors.

The Bank's risk management approach aggregates its risk appetite and tolerances taking into account the overall risk profile derived from the main risk categories within the following exogenous parameters:

- external and domestic economic environment;
- fiscal and monetary policies;
- regulatory constraints;
- views of credit and / or market analysis;
- banking competition;
- Shareholder expectations;
- strategic and financial objectives.

CREDIT RISK

The Bank's credit policy is designed to create a mutually beneficial credit system for both the Bank and its borrowers, thereby mitigating to the greatest extent practicable the elements of risk borne by the Bank through its credit intermediation activities.

Exposure to credit risk is managed by regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by instituting lending limits of appropriate size, tenor and conditionality together with related collateralization requirements to provide an alternative source of repayment in the event that unforeseen difficulties should arise.

Credit requests are prepared by experienced credit marketing officers based on analysis and evaluation of a debtor's creditworthiness. Statistically proven scorecards and industry experts' opinions are used in the assessments of the creditworthiness of borrowers. Credit applications are approved by at least two senior credit managers, the Sub-Credit Committee or the Credit Committee, depending on the size of the facilities requested.

The Bank's delegated discretionary credit approving authorities are as follows:

- 2 Senior Credit Managers - up to MNT 30 million (equivalent to USD 25,000)
- Sub-Credit Committee - up to MNT 200 million (equivalent to USD 167,000)
- Credit Committee - facilities above MNT 200 million

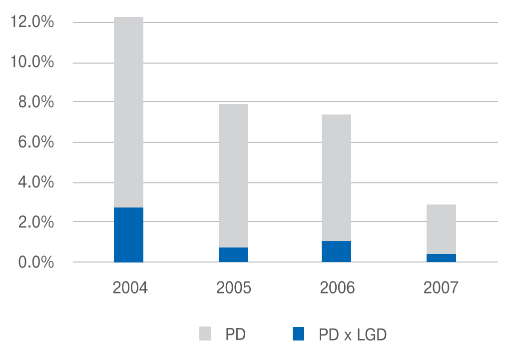
Concentration limits are applied to loan portfolios to keep credit quality at a pre-determined level. To avoid any excessive loan concentration in one business sector or in any particular segment of the economy, the Bank's policy constrains aggregate loans to any single business sector to a maximum of 30 per cent. of the total loan portfolio augmented by defined single borrower limits, connected borrowing group limits, and rating and country limits.

Close monitoring and the maintenance of a highly conservative ratio of relationship managers to the number of borrowing clients is intended to enable the Bank to quickly identify potential problems before contractual debt service is impeded and a loan becomes non-performing. Additionally, the Bank strives to quantify the commercial trade off implicit in the conflict between the necessity to sustain adequate returns against constant pressure for lower interest rates attainable by borrowers as a result of ever-increasing banking industry competitiveness and preserving essential business volumes. It determines its interest rates and loan policies carefully through ALCO in order to meet an acceptable balance of risk and return.

CREDIT RISK MODELLING

The Bank has developed its proprietary methodology to estimate credit risk components including the probability of default ("PD") and loss given default ("LGD") for the years 2004, 2005, 2006 and 2007. The model, which is designed to meet both IAS 39 and Basel Credit Risk modelling requirements and has been validated by Ernst and Young, is proving a valuable tool for measuring expected credit defaults and losses, thereby facilitating control of credit risk exposures by changing limit bands and other appropriate parameter levels.

Credit Modelling

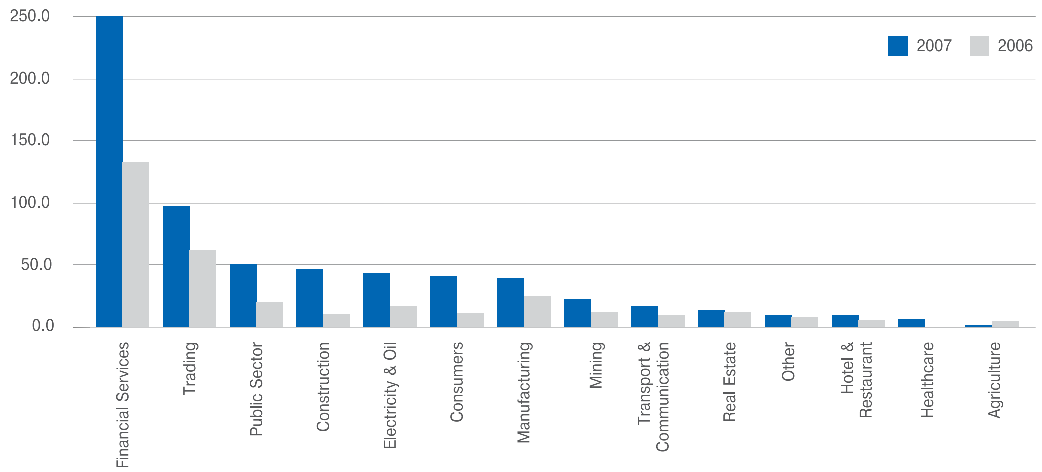


Through a combination of an increasingly disciplined approach to the extension of credit at all levels within the Bank, particularly in the retail credit sector, coupled with the valuable management information data obtained from the PD/LGD model, the Probability of Default ("P def") had reduced to the level of 2.5 per cent. in parallel with "LGD" declining to 0.3 per cent. by the end of 2007.

INDUSTRY ANALYSIS

The Bank analyses its maximum credit exposure by industry sector using portfolio segmentation tools. As the end of 2007 the Bank's gross exposure amounted to MNT 651.6 billion (equivalent to USD 556.9 million), an increase of 95 per cent. over to the previous year.

Gross Maximum Exposure (MNT Billion)



GOLOMT BANK

Through ongoing customer surveys the majority of respondents answered that the key reason for choosing Golomt Bank was its reliability.

"Earning customer trust every day"

LIQUIDITY RISK

Liquidity risk means failure to pay debts and obligations when due because of inability to convert assets into cash, or failure to procure adequate funding, or, that such funding comes at an exceptionally high cost that could adversely affect bank's income and capital.

Golomt Bank manages its liquidity risk based on the following risk factors to reduce risk:

- strong and well structured balance sheet;
- stable funding sources;
- good customer service;
- adequate planning of liquidity;

The combined impact of the elements is consistently monitored and reported to the ALCO.

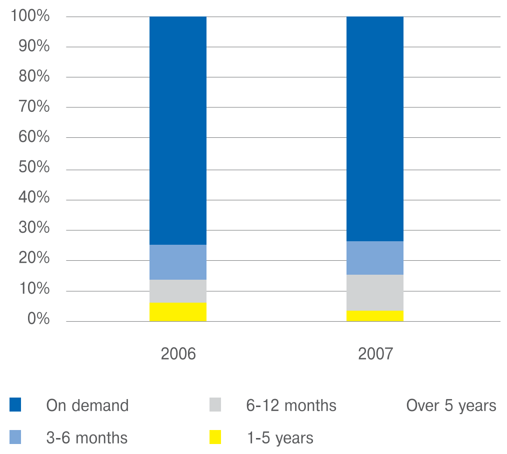
The Bank implements a risk measurement system embracing over 30 ratios and indicators, approved by the ALCO. The following table shows the Bank's liquidity ratio during the fiscal year.

An analysis of contractual maturity is set out in the chart alongside: 94 per cent. of the financial assets have a maturity of less than 12 months.

Liquidity Ratio	2006	2007
31st December	53.2%	49.3%
Average during the period	47.3%	53.0%
Highest	53.2%	59.3%
Lowest	43.2%	49.3%

As part of the liquidity management process, the Bank produces estimates of cash flow, forecasting demand and identifying sources of available funds in the market in different situations. The contingency funding plan also contains sensitivity analyses to capture structural changes in the balance sheet which may result from individual or systemic liquidity pressures.

Maturity Analysis



MARKET RISK

Market risk reflects the volatility that may affect the fair value or future cash flows of financial assets.

The Board of Governors establishes within its Risk Strategy Statement an overall limit for market risk disaggregated into sectoral and instrument sub-limits. ALCO monitors market risk exposure within the parameters set by Board of Governors. This is achieved through the constant review of interest and exchange rate exposures and trading risks in both the banking and trading books and by establishing view on current and future developments in the markets in which the Bank operates.

The Head of Treasury Division is responsible for day-to-day management of market risk, operating within the limits established for products, investment categories, hedging and counterparties and in compliance with the policies and procedures established and approved by the Board of Governors and ALCO respectively.

Risk Management Division independently plays a key role in market risk management reporting to ALCO and the CEO.

INTEREST RATE RISK

The major market risk within the banking book is interest rate risk arising from the mismatch or re-pricing of assets and liabilities; in essence of the loans of the Bank and the deposits that fund them.

The table below shows the sensitivity analysis of the income statement resulting from realistic possible changes in interest rates based on the facilities and liabilities held at the year end.

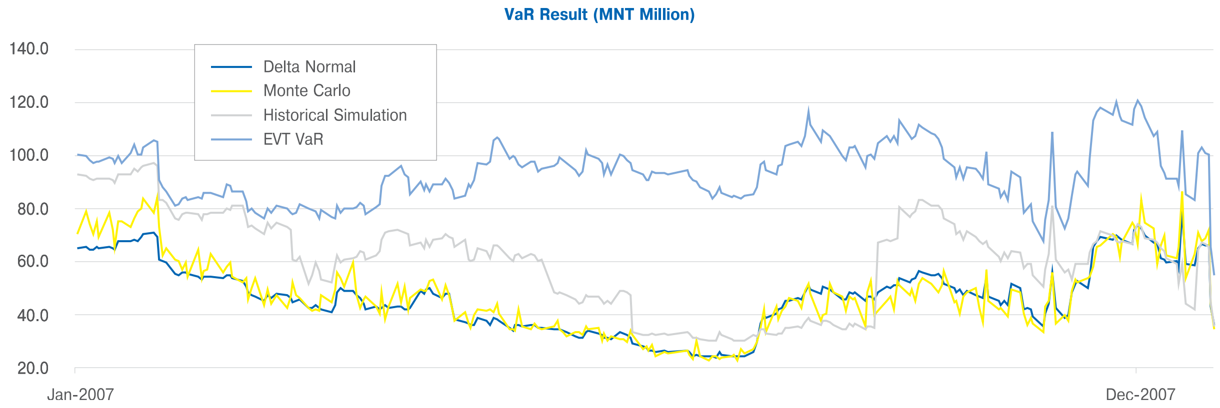
	Change in basis points	Sensitivity to Profit Before Taxation
2007	**+90**	**-0.008%**
2007	**-120**	**0.008%**
2006	+150	-0.017%
2006	-150	0.017%

CURRENCY AND BASIS RISK

The primary areas of risk in the trading book derive from foreign exchange and derivative trading which are exposed to changes in their basis risk, market liquidity and to re-pricing.

The Bank uses three types of VaR (Value at Risk) methodology to quantify the aggregated market risk. VaR is a measure of the maximum expected loss that could occur in normal and abnormal markets over a defined period and within a defined level of probability. Its main value is in providing a common denominator for measuring different kinds of risk so that the risk/reward coefficients can be compared across products.

VaR is the main tool within the Bank to manage the foreign exchange risk which is reviewed on a daily basis against the limits established by the ALCO, the Board of Governors and Central Bank respectively. The chart below shows the aggregated VaR analysis with holding period of one day with a confidence factor of 99 per cent.



OPERATIONAL RISK

The Basle Accord defines operational risk as the risk of losses resulting from inadequate or failed internal processes, problems with people, systems and external events.

The Bank pays very close attention to operational risk, which could impact on the Bank's earnings particularly in such areas as payments, custody and trade finance where there is a high reliance on operational capabilities. Operational risk management is defined as on-going processes including the basic components for the identification, assessment, management, monitoring and reporting systems.

The Bank is currently developing an operational loss database based upon a matrix of the various elements of risk including the direct cost to the Bank of each failure in terms of compensation, penalties and losses.

Also, the Bank is collaborating with our regulatory supervisor and insurance experts to build a database relating to less frequent and extreme loss events.

INFORMATION RISK MANAGEMENT

Information risk management practices play a key role in protecting information from a wide range of threats to ensure business continuity, minimise business damage and maximise return on investment and business opportunities.

In 2007, the Bank implemented a new upgraded information security policy. The policy has been developed to protect the Bank from hazards and threats, by ensuring that valuable information held in information systems is secure from accidental or deliberate unauthorized modification or disclosure.

COMPLIANCE RISK

In the course of the structural re-organization, the Bank established an independent Compliance Department. The purpose of the compliance function is to assist the Bank in managing its compliance risk; the risk that the Bank may suffer as a result of any failure to comply with all applicable laws, regulations, codes and international best practice.

ANTI MONEY LAUNDERING CONTROL

The Bank has developed and updated an enhanced Policy on combating money laundering and the threat of terrorism financing overseen by an independent AML Unit. In accordance with the updated policy we have enhanced and updated all customers' portfolio files and conduct online monitoring on a daily basis.

In this context, currency transaction reports are sent to the Financial Information Unit of The Bank of Mongolia on a weekly basis as required by law. We also collaborate closely with correspondent banks exchanging necessary information and practices in this vital area of international business monitoring.

Training in anti-money laundering policies and procedures constitutes an important element of the initial induction training programmes undertaken by all new employees. In addition all customer inter-facing staff undergo revision programmes in anti-money laundering procedures on an annual basis.

COMMUNITY SUPPORT

The Bank strongly believes that our corporate success is closely linked to the community environment in which we operate. As a result, our Social Responsibility support programmes emphasize those which improve quality of life in such key areas as youth development, health, education and humanitarian issues.

SUPPORTING CHILDREN

We are continuing to organize social activities for giving hope and creating opportunities for our most valuable resource-our children. On the occasion of International Childrens' Day, the Bank organized a "For Every Child" event in cooperation with other partners to provide support and opportunity for disadvantaged children.

SUPPORTING STUDENTS

Attracting, developing and keeping talented people is a critical component of our competitive advantage. Accordingly the Bank has several well established student support programmes such as the scientific conference scholarship programmes and community activities with students and students' clubs. In 2007, the Bank successfully organized the "6th Scientific Conference" among the students of 17 Universities in Mongolia.

On an ongoing basis since 2003, the Bank has extended a Student Scholarship Programme for students, successfully studying in the universities and institutions. In 2007, the Bank granted scholarships to 100 students who qualified by essay examination and interview, supporting them with a monthly stipend.

SPONSORING SPORTS AND ARTISTIC EVENTS

The Bank sponsored the Asian 24th Boxing Championships competition, and a special musical performance to commemorate the 20th anniversary of the Cultural Palace In Ulaanbaatar.

The Bank remains the major sponsor of the Mongolian National Olympic Team as it prepares for the 2008 Olympics to be held in Beijing. In recognition of this long standing support for the Olympic movement the Bank received unique recognition from the International Olympic Committee in Lausanne, Switzerland, during December, 2007.

PRODUCTS AND SERVICES

FOR CORPORATE CUSTOMERS:

Deposit Services

- Current Account Services
- Overdrafts
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Prepaid Interest Rate Deposits
- Certificates of Deposit

Loan Services

- Corporate Loans
  - Working Capital
  - Credit Lines
  - Investment Loans
  - Equipment Leasing
  - Non-Bank Financial Institution Loans
  - Private Sector Development Loans
- Inter-Bank Loans
- Syndicated Loans

Card services

- Master Card (domestic/international)
- Visa Card (domestic/international)
- Co-Branded Cards

Bank Guarantees

- Tender Guarantee
- Advance Payment Guarantee
- Performance Bonds

Letters of Credit

- Exporting
- Importing

E-Banking

- Electronic Banking
- Internet Banking
- SMS Banking
- Utilities Billing
- Telephone Banking

Payment Services

- Western Union International Money Transfer Service
- International Money Transfers
- Domestic Money Transfers

Premier Banking

- Wealth Management

Business Consultancy Services

Safe Box Services

Foreign Exchange Trading Services

Escrow Account Services

FOR INDIVIDUAL CUSTOMERS:

Deposit Services

- Current Account Services
- Overdrafts
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Golden Key Children's Deposits
- Prepaid Interest Rate Deposits
- Certificates of Deposit

Loan Services

- Small Medium Enterprise Loans
  - Working Capital
  - Investment Loans
  - Equipment Leasing
  - Small Medium Business Development Loans
  - ADB Employment Generation Project Loans
  - Import
  - SME Loan from Investment and Development Fund
  - Green
- Consumer Loans
  - Household
  - Apartment Renovation
  - Salary
  - Training
  - Auto
  - Credit Card
  - Card Installment
  - Savings-Backed
  - Quick
- Mortgage loans
  - ADB Financed
  - Directly Funded
  - 40,000 Housing Unit Programme

E-Banking

- Electronic Banking
- Internet Banking
- SMS Banking
- Utilities Billing
- Telephone banking

Payment Services

- Western Union International Money Transfer Service
- International Money Transfers
- Domestic Money Transfers

Card services

- Master Card
  - Platinum
  - Gold (domestic/international)
  - Standard (domestic/international)
  - Maestro (students)
- Visa Card
  - Platinum
  - Gold (domestic/international)
  - Classic (domestic/international)
  - VISA Electron (Student Discount Card)
- Co-Branded Cards
  - MIAT Mileage
  - Air Network
  - Chamber of Commerce
- Golden Ear Yuan Card

Premier Banking

- Wealth Management

Business Consultancy Services

Safe Box Services

Foreign Exchange

Escrow Account Services

BRANCH NETWORK

HEAD OFFICE
3 Sukhbaatar Square P.O. Box 22
Ulaanbaatar 210620A, Mongolia
Tel: + (976-11) 311971, 311530
Fax:+ (976-11) 313155, 312307
Email: mail@golomtbank.com
Web: http://www.golomtbank.com

OFFICES IN ULAANBAATAR

	Name	Address	Contact
1st branch	Main Branch	Trade Street 6/2. Chingeltei District, Ulaanbaatar	Tel: (976-11) 310759, 313155 Fax: +(976-11) 326231
2nd branch	Sansar Branch	Khoroolol # 15, Bayanzurkh District, Bayantseel Trade Center, Ulaanbaatar	Tel: +(976-11) 456980 Fax: +(976-11) 456829
3th settlement center	Airport Settlement center	Khan-Uul District, "Chinggis Khan" International Airport, Ulaanbaatar	Tel: +(976-11) -283205 Fax: +(976-11) -283205
4th settlement center	100 ail Settlement center	Sukhbaatar District, Khoroolol #11, Khoroo # 7 Ulaanbaatar	Tel: +(976-11)-350542 Fax: +(976-11)-350544
5th branch	Ard Branch	Baga Toiruu Street, Chingeltei District, Ulaanbaatar	Tel: +(976-11) 320712, Fax: +(976-11) 330436
6th branch	Solongo Branch	Natsagdorj Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11) 320814 Fax +(976-11) 318479
7th branch	Sapporo Branch	Khoroolol #1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11) 681267 Fax: +(976-11) 680367
8th branch	Moscow Branch	Moscow Complex, Khoroolol # 3, Bayangol District, Ulaanbaatar	Tel: +(976-11) 305419 Fax: +(976-11) 368602
9th settlement center	Customs Settlement center	Ulaanbaatar City Customs Office, Bayangol District, Ulaanbaatar	Tel: +(976-11) 242943 Fax: +(976-11) 242943
10th settlement center	Baganuur Settlement center	Kholboonii building Baganuur District,, Ulaanbaatar	Tel: +(976-01-21)-22333 Fax: +(976-01-21)-20818
12th branch	Loan Center	Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11) 330072 Fax: +(976-11) 330621
16th branch	Golomt City Branch	Constitution Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11) - 322943 Fax: +(976-11) - 322943
17th settlement center	Tsambagarav Settlement center	Tsambagarav Trade Center, Khoroolol # 1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11) 680762 Fax: +(976-11) 680763
19th settlement center	Tsetsee Gun Settlement center	Khoroo # 4, Chingeltei District, Ulaanbaatar	Tel: +(976-11)316395 Fax: +(976-11)316395
20th settlement center	TEDY Settlement center	Sambuu's Street – 46, Khoroo # 5 Chingeltei District, Ulaanbaatar	Tel: +(976-11) 325970 Fax: +(976-11) 325970
22nd settlement center	120.000 Settlement center	120 Myangat Service Center, Khoroo # 1, Khan-Uul District	Tel: +(976-11) 70130080
23th settlement center	Piece Bridge Settlement center	Chinggis Avenue – 11 Khoroo # 2, Sukhbaatar District, Ulaanbaatar Transportation Service Center	Tel: +(976-11) 315949
24th settlement center	Tamir Settlement center	Ard Ayush Street, Khoroolol # 3, Bayangol District, Ulaanbaatar	Tel: +(976-11) 304959 Fax: +(976-11) 304959

BRANCHES AND OFFICES IN AIMAGS

	Name	Address	Contact
11th settlement center	Dornod Settlement center	Bag # 7, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582)-22703 Fax: +(976-01-582)-22702
13th settlement center	Zamiin-Uud Settlement center	Bag # 1, Zamiin-Uud Soum, Dornogobi Aimag	Tel: +(976-025-245)-43773 Fax: +(976-025-245)-43773
14th settlement center	Orkhon Branch	Amar square, Bayan-Undur Soum Orkhon Aimag	Tel: +(976- 01-352)-25100 Fax: +(976- 01-352)-22510
21th settlement center	Orkhon-Pyramid Settlement center	Sogoot Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976- 01-352)-23300 Fax: +(976- 01-352)-23300
15th settlement center	Darkhan Branch	Bag # 13, Darkhan Soum Social Security Office building Darkhan-Uul Aimag,	Tel: +(976- 01-372)-27136 Fax: +(976- 01-372)-27136
18th settlement center	Khuvsgul Settlement center	Khoroolol # 3, Murun Soum, Khuvsgul Aimag	Tel: +(976-01-382)-21474 Fax: +(976-01-382)-21474
26th settlement center	Umnugobi Settlement center	Bag # 3, Dalanzadgad City,Umnugobi Aimag	Tel: +(976-01-532)-23991 Fax: +(976-01-532)-23990

Golomt Bank Head Office (foreground) and Bodi Tower (background)

GOLOMT BANK OF MONGOLIA

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG Mongolia Audit Company

Certified Public Accountants
Suite 603
6th Floor Bodi Tower
Sukhbaatar Square
Ulaanbaatar
Mongolia

Phone: +976-11-314032
+976-11-312005
Fax: +976-11-312042
www.ey.com

REPORT OF THE INDEPENDENT AUDITORS
To the shareholder of Golomt Bank LLC

We have audited the accompanying financial statements of Golomt Bank LLC, which comprise the balance sheet as at 31st December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body in accordance with Article 91 of Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
ЭРНСТ ЭНД ЯНГ МОНГОЛИА АУДИТ ХХК
УХН7346 2665247

Ulaanbaatar
29 Feb 2008

GOLOMT BANK

GOLOMT BANK LLC
INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2007

	Note	2007 MNT '000	2006 MNT '000
Interest and similar income	3	44,563,827	26,954,740
Interest and similar expenses	4	(30,227,766)	(18,282,530)
Net interest income		14,336,061	8,672,210
Fees and commission income	5	6,445,506	4,405,661
Fees and commission expense	5	(1,238,795)	(1,015,137)
Net fees and commission income	5	5,206,711	3,390,524
Other operating income	6	2,023,997	307,612
Operating income		21,566,769	12,370,346
Operating expenses	7	(10,078,312)	(6,179,410)
Profit before credit loss expenses		11,488,457	6,190,936
Credit loss expense	8	(2,299,279)	(2,562,829)
Profit before taxation		9,189,178	3,628,107
Income tax expense	9	(1,811,455)	(1,108,565)
Profit for the year attributable to equity holder of the Bank		**7,377,723**	**2,519,542**

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

GOLOMT BANK LLC
BALANCE SHEET AS AT 31st DECEMBER 2007

	Note	2007 MNT '000	2006 MNT '000
ASSETS			
Cash and balances with central bank	**10**	74,529,087	40,130,171
Due from banks	**11**	206,106,834	114,084,513
Derivative financial instruments	**12**	2,565,117	688,092
Financial investments - available-for-sale	**13**	34,950,867	14,996,837
Loans and advances to customers	**14**	323,026,324	174,700,230
Property, plant and equipment	**15**	4,718,911	3,470,099
Intangible assets	**16**	1,938,152	304,491
Other assets	**17**	4,215,615	4,787,031
TOTAL ASSETS		**652,050,907**	**353,161,464**
LIABILITIES			
Due to banks	**18**	36,819,404	20,237,532
Due to customers	**19**	512,485,147	283,706,768
Derivative financial instruments	**12**	2,690,323	688,092
Borrowed funds	**20**	21,911,445	6,876,911
Subordinated loans	**21**	15,860,015	4,500,000
Other liabilities	**22**	23,436,369	5,427,724
Tax payable		176,415	430,371
TOTAL LIABILITIES		**613,379,118**	**321,867,398**
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK			
Statutory fund	**23**	21,934,142	21,934,142
Retained earnings		**16,737,647**	**9,359,924**
TOTAL EQUITY		**38,671,789**	**31,294,066**
TOTAL EQUITY AND LIABILITIES		**652,050,907**	**353,161,464**

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

GOLOMT BANK LLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31st DECEMBER 2007

	Note	Statutory fund MNT '000	Distributable Retained earnings MNT '000	Total MNT '000
At 1st January 2006		13,434,142	6,840,382	20,274,524
Profit for the year		-	2,519,542	2,519,542
Issued during the year	**23**	8,500,000	-	8,500,000
At 31st December 2006		**21,934,142**	**9,359,924**	**31,294,066**
Profit for the year		-	7,377,723	7,377,723
At 31st December 2007		**21,934,142**	**16,737,647**	**38,671,789**

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

GOLOMT BANK LLC
CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2007

	2007 MNT '000	2006 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	9,189,178	3,628,107
Adjustments for :-		
Depreciation of property, plant and equipment	1,621,590	636,292
Amortisation of intangible assets	257,924	89,020
Property, plant and equipment written off	33,395	4,096
Credit loss for loans and advances to customers	2,252,121	2,562,829
Credit loss for other assets	47,158	-
Unrealised foreign exchange losses	92,709	446,866
Gain on disposal of financial investments	-	(22,430)
Loss on disposal of property, plant and equipment	-	1,320
Operating profit before working capital changes	**13,494,075**	**7,346,100**
Changes in operating assets:-		
Loans and advances to customers	(150,670,924)	(45,893,029)
Other assets	524,258	(568,095)
Changes in operating liabilities:-		
Due to banks	16,581,872	12,801,543
Due to customers	228,778,379	50,869,212
Other liabilities	18,032,727	1,040,735
Cash generated from operations	**126,740,387**	**25,596,466**
Income tax paid	(2,065,411)	(883,960)
Net cash flow generated from operating activities	**124,674,976**	**24,712,506**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase)/decrease in financial investments	(19,954,030)	5,002,757
Proceeds on disposal of property, plant and equipment	-	14,804
Purchase of property, plant and equipment	(2,903,797)	(1,049,134)
Purchase of intangible assets	(1,891,585)	(273,174)
Net cash flow (used in)/generated from investing activities	**(24,749,412)**	**3,695,253**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in statutory fund	-	8,500,000
Drawdown of borrowed funds	17,443,664	2,308,406
Repayment of borrowed funds	(2,409,130)	(3,543,954)
Drawdown of subordinated loans	11,461,139	4,500,000
Net cash flow generated from financing activities	**26,495,673**	**11,764,452**
Net increase in cash and cash equivalents	**126,421,237**	**40,172,211**
Cash and cash equivalents brought forward (Note 24)	**154,214,684**	**114,042,473**
Cash and cash equivalents carried forward (Note 24)	**280,635,921**	**154,214,684**

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

GOLOMT BANK LLC
NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2007

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of banking and financial services pursuant to License No. 8 issued by Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is Sukhbaatar Square 3, Ulaanbaatar 210620A, Mongolia.

The immediate and ultimate holding company of the Bank is Bodi International Co. Limited, a company incorporated in Mongolia.

These financial statements of the Bank for the year ended 31st December 2007 were authorised for issue by the Board of Governors in accordance with a resolution of the governors on 29th February 2008.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest and similar income and expense

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

(b) Fees and commission income

Fees and commission income derived by the Bank relate mainly to money transfer, loan processing, debit card and credit card service and current account withdrawal. Fee and commission income are generally recognised on an accrual basis when the service has been provided.

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Foreign currencies translation

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

(d) Income tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and balances with central banks and due from banks.

(f) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

(ii) Initial recognition of financial instruments

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

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

Derivatives include cross currency swaps, forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Other operating income'.

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

(iv) Financial assets or financial liabilities held for trading

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

Included in this classification are debt securities, equities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

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

Financial assets and financial liabilities classified in this category are designated at initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instruments contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

(vi) 'Day 1' profit

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(vii) Held-to-maturity financial investments

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

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

''Due from banks' and 'Loans and advances to customers' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment-available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Credit loss expense'.

(ix) Available-for-sale financial investments

Available-for-sale financial investments are those designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

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

(x) Borrowed funds and subordinated loans

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowed funds', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

(g) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred not retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

(ii) Financial liabilities

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

(h) Determination of fair value

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

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

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

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

(ii) Held-to-maturity financial investments

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

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

(iii) Available-for-sale financial investments

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

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

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

(iv) Renegotiated loans

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

(j) Offsetting financial instruments

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Property, plant and equipment

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

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

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

Buildings	40 years
Office equipment and vehicles	10 years
Computers	3 years

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

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

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

The intangible assets of the Bank comprise of computer software and licences and are considered to have finite useful lives. These intangible assets are amortised using the straight-line method over their estimated useful lives of 3 years.

(m) Impairment of non-financial assets

The Bank assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair values less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(n) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a 'Cash collateral on securities lent and repurchase agreements', reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Where the transferee has the right to sell or pledge the asset, the asset is recorded on the balance sheet as 'Financial assets held for trading pledged as collateral'.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a 'Cash collateral on securities borrowed and reverse repurchase agreements'. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

(o) Financial guarantees

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

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

(p) Employee benefits

(i) Short term benefits

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(p) Employee benefits (contd.)

(ii) Defined contribution plans
As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred.

(q) Operating leases

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

(r) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

2.3 CHANGE IN ACCOUNTING POLICIES

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

* IFRS 7	- Financial Instruments: Disclosures
* IAS 1	- Amendment - Presentation of Financial Statements
* IFRIC 7	- Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
* IFRIC 8	- Scope of IFRS 2
* IFRIC 9	- Reassessment of Embedded Derivatives.
* IFRIC 10	- Interim Financial Reporting and Impairment

The adoption of the above new and amended standards and interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Bank. However, IFRS 7 - Financial Instruments: Disclosure did give rise to additional disclosures and change of comparatives as disclosed in Note 31

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

* IFRS 3 (Revised)	- Business Combinations
* IFRS 8	- Operating Segments
* IAS 1 (Revised)	- Presentation of Financial Statements
* IAS 23 (Revised)	- Borrowing Costs
* IAS 27 (Revised)	- Consolidated and Separate Financial Statements
* Amendment to IFRS 2	- Share-based Payments - Vesting Conditions and Cancellations
* Amendments to IAS 32	- Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments
* IFRIC 11	- IFRS 2 - Group and Treasury Share Transactions

* IFRIC 12 - Service Concession Arrangements
* IFRIC 13 - Customer Loyalty Programmes
* IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these new and amended Standards and Interpretations in the future period will have no material impact on the financial statements of the Bank.

2.4 CHANGE IN ESTIMATE

During the financial year, the Bank revised the useful life of its computer equipment and computer software from five years to three years with effect from 1st January 2007. The revision is accounted for prospectively as a change in accounting estimates and as a result, the depreciation charge for the current financial year has been increased by MNT 709,326 million.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

(i) Valuation of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for derivatives.

(ii) Impairment losses on loans and advances

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

In addition to specific allowance against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Some of the factors that are taken into consideration are deterioration in industry risk, technological obsolescence, identified structural weaknesses and deterioration in cash flows.

3. INTEREST AND SIMILAR INCOME

	2007 MNT '000	2006 MNT '000
Loans and advances to customers	36,563,857	22,477,897
Due from banks	5,808,323	3,962,133
Financial investments - available-for-sale	2,154,334	454,969
Financial investments - held-to-maturity	-	36,933
Reverse repurchase agreements	37,313	22,808
	44,563,827	**26,954,740**

4. INTEREST AND SIMILAR EXPENSES

	2007 MNT '000	2006 MNT '000
Due to customers	28,204,180	17,412,096
Due to banks	1,062,395	237,473
Borrowed funds and subordinated loans	953,418	632,961
Repurchase agreements	7,773	-
	30,227,766	**18,282,530**

5. NET FEES AND COMMISSION INCOME

	2007 MNT '000	2006 MNT '000
Fees and commission income		
Account service fees and commissions	1,602,751	984,244
Card related fees and commissions	1,410,870	1,312,204
Credit related fees and commissions	1,277,383	783,867
Remittance fees	2,154,502	1,325,346
	6,445,506	4,405,661
Fees and commission expense		
Bank service expense	(689,765)	(559,237)
MasterCard transaction expense	(101,483)	(100,525)
Visa card transaction expense	(373,030)	(299,952)
Other card related expense	(74,517)	(55,423)
	(1,238,795)	(1,015,137)
Net fees and commission income	**5,206,711**	**3,390,524**

6. OTHER OPERATING INCOME

	2007 MNT '000	2006 MNT '000
Realised foreign exchange gain	2,062,179	683,533
Unrealised foreign exchange loss	(92,709)	(446,866)
Gain on disposal of financial investments - held-to-maturity	-	22,430
Other operating income	54,527	48,515
	2,023,997	**307,612**

7. OPERATING EXPENSES

	2007 MNT '000	2006 MNT '000
Advertising	457,969	275,517
Communication	422,177	380,718
Depreciation of property, plant and equipment (Note 15)	1,621,590	636,292
Amortisation of intangible assets (Note 16)	257,924	89,020
Entertainment	34,466	21,059
Staff costs *	2,598,998	1,787,838
Rental of premises	1,406,606	1,105,036
Safety expenses	901,429	515,362
Stationery	342,411	263,081
Traveling expenses	418,153	256,148
Loss on disposal of property, plant and equipment	-	1,320
Property, plant and equipment written-off (Note 15)	33,395	4,096
Other operating expenses	1,583,194	843,923
	10,078,312	**6,179,410**

*** Staff Costs**		
Salaries, wages and bonus	2,018,645	1,410,357
Contribution to social and health fund	339,774	271,250
Staff training	228,939	94,533
Staff benefit	11,640	11,698
	2,598,998	**1,787,838**

8. CREDIT LOSS EXPENSES

	2007 MNT '000	2006 MNT '000
Loans and advances to customers		
Corporate lending	1,746,611	2,442,155
Small business lending	(9,573)	197,939
Consumer lending	518,105	(5,805)
Residential mortgages	(9,475)	5,884
Others	6,453	(77,344)
	2,252,121	**2,562,829**
Other receivables	47,158	-
	2,299,279	**2,562,829**

9. INCOME TAX EXPENSE

	2007 MNT '000	2006 MNT '000
Current income tax:		
Based on results for the year	1,811,455	1,108,565

9. INCOME TAX EXPENSE (CONTD.)

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of bank is 10% (2006: 15%) for the first MNT3 billion (2006: MNT100 million) of taxable income, and 25% (2006 30%) on the excess of taxable income over MNT3 billion (2006: MNT100 million). Interest income on government bonds is not subject to income tax. Impairment losses for loans and advances is deductible for income tax purposes.

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

	2007 MNT '000	2006 MNT '000
Profit before taxation	**9,189,178**	**3,628,107**
Tax at statutory tax rate of 25% (2006: 30%)	2,297,295	1,088,432
Effect of income not subject to tax	(60,106)	(7,365)
Effect of expenses not allowable for tax purposes	24,266	42,498
Effect of income subject to lower tax rate	(450,000)	(15,000)
Tax expense for the year	**1,811,455**	**1,108,565**

Deferred tax is not provided for in the current and previous financial years as there are no temporary differences.

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

10. CASH AND BALANCES WITH CENTRAL BANK

	2007 MNT '000	2006 MNT '000
Cash on hand	32,037,098	19,907,641
Current account with the central bank	42,491,989	20,222,530
	74,529,087	**40,130,171**

Current accounts with the central bank, the Bank of Mongolia, are maintained in accordance with the Bank of Mongolia's requirements. The balances maintained with the Bank of Mongolia are determined at set percentages based on the basis of 14-day period. As at 31 December 2007, the mandatory reserve required by the Bank of Mongolia is MNT19,406 million (2006: MNT11,647 million).

11. DUE FROM BANKS

	2007 MNT '000	2006 MNT '000
Placement with other banks and financial institutions	196,095,723	114,084,513
Loans and advances	10,011,111	-
	206,106,834	**114,084,513**

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

Placements with other banks and financial institutions amounting to MNT43.89 million (2006: MNT39.24 million) are pledged to a bank as security for loan granted as disclosed in Note 20.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The information below shows the fair value of derivative financial instruments together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets. This is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2007 MNT '000	2006 MNT '000
Assets		
- Derivatives held for trading - forward foreign currency exchange contracts	2,565,117	688,092
Liabilities		
- Derivatives held for trading - forward foreign currency exchange contracts	2,565,117	688,092
- Equity and currency derivatives (Note 21)	125,206	-
	2,690,323	**688,092**
Notional amount		
Derivatives held for trading		
- Forward foreign currency exchange contracts	83,121,971	53,361,480
- Equity and currency derivatives	11,699,700	-
	94,821,671	**53,361,480**

As at 31st December 2007, the forward foreign exchange contracts relate to the deals with customers which are laid off within counterparties.

13. FINANCIAL INVESTMENTS

	2007 MNT '000	2006 MNT '000
Available for sale:		
The Bank of Mongolia treasury bills, at fair value	30,825,708	14,995,837
Unquoted government bond, at fair value	3,924,159	-
Unquoted equities, at cost	201,000	1,000
	34,950,867	**14,996,837**

The Bank of Mongolia treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. Government bond is issued by Ministry of Finance with maturity less than 6 months, and is issued at a discount.

Unquoted equities represents an investment in Mongolian Mortgage Corporation. The investment is recorded at cost due to the absence of quoted market price and the fair value cannot be reliably measured using valuation techniques. There is no market for this investment and the Bank intends to hold it for the long term.

14. LOANS AND ADVANCES TO CUSTOMERS

	2007 MNT '000	2006 MNT '000
Corporate lending	268,702,207	155,001,672
Small business lending	24,190,933	18,442,555
Consumer lending	20,390,181	4,824,451
Residential mortgages	21,810,634	7,335,845
Others	580,119	467,417
	335,674,074	**186,071,940**
Accrued interest receivables	1,665,765	966,144
Gross loans and advances	**337,339,839**	**187,038,084**
Less: Allowance for impairment losses	(14,313,515)	(12,337,854)
Net loans and advances	**323,026,324**	**174,700,230**

Impairment allowance for loans and advances to customers

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

At 31st December 2007	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 1st January 2007	11,382,684	842,623	15,628	62,990	33,930	12,337,855
Charge for the year	3,191,669	523,212	551,580	181,654	49,032	4,497,147
Recoveries	(1,445,058)	(532,785)	(33,475)	(191,129)	(42,579)	(2,245,026)
Amounts written off	(276,563)	-	-	-	-	(276,563)
Exchange difference	76	12	9	4	1	102
At 31st December 2007	**12,852,808**	**833,062**	**533,742**	**53,519**	**40,384**	**14,313,515**
Individual impairment	6,738,805	84,306	6,044	-	-	6,829,155
Collective impairment	6,114,003	748,756	527,698	53,519	40,384	7,484,360
	12,852,808	**833,062**	**533,742**	**53,519**	**40,384**	**14,313,515**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**13,755,154**	**255,198**	**11,497**	**-**	**-**	**14,021,849**

14. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers (contd.)

At 31st December 2006	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 1st January 2006	9,743,180	646,066	21,479	57,228	111,513	10,579,466
Charge for the year	4,863,605	378,205	12,887	12,097	2,302	5,269,096
Recoveries	(2,421,450)	(180,266)	(18,692)	(6,213)	(79,646)	(2,706,267)
Amounts written off	(781,800)	-	-	-	-	(781,800)
Exchange difference	(20,851)	(1,383)	(46)	(122)	(239)	(22,641)
At 31st December 2006	**11,382,684**	**842,622**	**15,628**	**62,990**	**33,930**	**12,337,854**
Individual impairment	10,082,428	228,463	-	-	-	10,310,891
Collective impairment	1,300,256	614,159	15,628	62,990	33,930	2,026,963
	11,382,684	**842,622**	**15,628**	**62,990**	**33,930**	**12,337,854**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**21,494,954**	**254,378**	**-**	**-**	**-**	**21,749,332**

The fair value of the collateral that the Bank holds relating to loans individually determined to be impaired at 31st December 2007 amounts to MNT16,889 million (2006: MNT25,902 million). These value are estimated by the management based on the latest available information. For a more detailed description, see 'Collateral and other credit enhancement' under Note 28 .

15. PROPERTY, PLANT AND EQUIPMENT

At 31st December 2007	Buildings MNT '000	Leasehold Improvements MNT '000	Office equipment and vehicles MNT '000	Total MNT '000
At cost				
At 1st January 2007	1,261,351	30,538	4,429,052	5,720,941
Additions	169,397	-	2,734,400	2,903,797
Write-offs	-	-	(328,762)	(328,762)
At 31st December 2007	**1,430,748**	**30,538**	**6,834,690**	**8,295,976**
Accumulated depreciation				
At 1st January 2007	236,933	22,054	1,991,855	2,250,842
Charge for the year (Note 7)	65,521	3,054	1,553,015	1,621,590
Write-offs	-	-	(295,367)	(295,367)
At 31st December 2007	**302,454**	**25,108**	**3,249,503**	**3,577,065**
Net carrying amount	**1,128,294**	**5,430**	**3,585,187**	**4,718,911**

At 31st December 2006	Buildings MNT '000	Leasehold Improvements MNT '000	Office equipment and vehicles MNT '000	Total MNT '000
At cost				
At 1st January 2006	1,238,443	30,538	3,534,774	4,803,755
Additions	22,908	-	1,026,226	1,049,134
Disposals	-	-	(50,414)	(50,414)
Write-offs (Note 7)	-	-	(81,534)	(81,534)
At 31st December 2006	**1,261,351**	**30,538**	**4,429,052**	**5,720,941**
Accumulated depreciation				
At 1st January 2006	173,804	19,001	1,533,473	1,726,278
Charge for the year (Note 7)	63,129	3,053	570,110	636,292
Disposals	-	-	(34,290)	(34,290)
Write-offs (Note 7)	-	-	(77,438)	(77,438)
At 31st December 2006	**236,933**	**22,054**	**1,991,855**	**2,250,842**
Net carrying amount	**1,024,418**	**8,484**	**2,437,197**	**3,470,099**

16. INTANGIBLE ASSETS

	Software and Licenses	
	2007	2006
	MNT '000	MNT '000
At cost		
At 1st January	549,493	276,319
Addition	1,891,585	273,174
At 31st December	**2,441,078**	**549,493**
Accumulated amortisation		
At 1st January	245,002	155,982
Charge for the year (Note 7)	257,924	89,020
At 31st December	**502,926**	**245,002**
Net carrying amount	**1,938,152**	**304,491**

17. OTHER ASSETS

	2007	2006
	MNT '000	MNT '000
Other receivables	1,311,913	1,412,767
Less: Allowance for impairment losses	(47,158)	-
	1,264,755	**1,412,767**
Prepaid expenses	2,531,331	3,065,234
Consumables and other inventories	419,529	309,030
	4,215,615	**4,787,031**
Impairment allowance for other receivables		
At 1st January 2007	-	-
Charge for the year	47,158	-
At 31st December 2007	**47,158**	**-**

18. DUE TO BANKS

	2007	2006
	MNT '000	MNT '000
Deposits from other banks and financial institutions	**36,819,404**	**20,237,532**

Deposits from other banks and financial institutions represents foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks.

19. DUE TO CUSTOMERS

	2007 MNT '000	2006 MNT '000
Government deposits		
- Current accounts	37,586,720	6,557,016
- Demand deposits	2,969	15,008,170
- Time deposits	10,008,767	864,007
Private sector deposits		
- Current accounts	83,881,027	35,942,765
- Demand deposits	2,337,897	2,741,539
- Time deposits	13,057,676	2,435,536
Individual deposits		
- Current accounts	35,670,712	20,871,296
- Demand deposits	125,168,340	72,090,654
- Time deposits	188,370,831	119,352,979
Other deposits		
- Current accounts	11,632,095	5,770,593
- Demand deposits	2,299,520	463,529
- Time deposits	2,468,593	1,608,684
	512,485,147	**283,706,768**

20. BORROWED FUNDS

	2007 MNT'000	2006 MNT'000
Secured:		
Landesbank Berlin	**519,681**	**479,931**
Unsecured:		
World Bank Loan I	1,037,860	1,141,952
World Bank Loan II	-	778,878
World Bank Loan III	307,857	336,615
Asian Development Bank	5,094,950	3,161,114
The Bank of Mongolia	1,122,113	978,421
Government of Mongolia	13,828,984	-
	21,391,764	**6,396,980**
Total	**21,911,445**	**6,876,911**

Landesbank Berlin

The Landesbank Berlin loan is used to finance the purchase of a building in Germany. The interest rate of the loan is 7.45% to 8.87% (2006: 7.45% to 8.87%) per annum. The Bank commenced quarterly principal repayments in June 1996 and the final repayment is due in September 2025. The loan is secured on placements with other banks and financial institutions as referred in Note 11.

World Bank Loan I

The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 8.33% to 8.39% (2006: 7.63% to 8.42%) per annum. The repayment of the loan is in accordance with various repayment schedules, with the final payment due in March 2010.

World Bank Loan II

The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 6.58% to 11.50% (2006: 7.46% to 9.81%) per annum. The final repayment of the loan is in accordance with various repayment schedules, with the final repayment due in June 2009.

World Bank Loan III

The loan is utilised for staff training purposes. The interest rate of the loan is fixed at 2% (2006: 2%) per annum with half yearly principal repayments commencing on November 2004 and final repayment due in May 2019 in accordance with the repayment schedule.

Asian Development Bank

The loan was disbursed to housing loan borrowers. The interest rate on the loans is between 7.64 % to 8.04% (2006: 8.13% to 8.29%) per annum. Terms of repayment of the loan are in accordance with the various repayment schedules.

The Bank of Mongolia

The Bank has obtained this loan in Mongolian Tugrug from the Bank of Mongolia since May 2001. The purpose of the loan was to establish new job opportunities and to support micro and medium enterprises in Mongolia.The loan bears interest at rate of 10% (2006: 10%) per annum and is to be fully repaid in December 2009.

Government of Mongolia

The Bank obtain investment and development fund from the Ministry of Finance during 2007. The interest rate on the loan is 5.48% per annum. The Bank will serve the interest from July 2008 onwards on monthly basis and the loan is to be fully repaid in 2009.

The Bank obtain 40,000 Housing Loan from Minister of Finance during the 2007 for the purpose of financing construction of housing area in Mongolia. The interest rate on the loan is 7.00% per annum, payable semiannually, and the loan is to be fully repaid in 2017.

The Bank has not had any default of principal, interest or other breaches with respect to its borrowed funds during the year.

21. SUBORDINATED LOANS

	2007 MNT'000	2006 MNT'000
Subordinated convertible loan from Credit Suisse	11,360,015	-
Subordinated loan from Mongol Post Bank LLC	4,500,000	4,500,000
	15,860,015	**4,500,000**

Subordinated convertible loan from Credit Suisse

On 21st December 2007, the Bank received a USD 10 million 5-year subordinated convertible loan from Credit Suisse, Singapore Branch. The terms of the subordinated convertible loan are as follows:

(a) Conversion option - Credit Suisse has the option at any time during the conversion period to convert the subordinated convertible loan into new ordinary shares of MNT1,000 each of the Bank.

(b) Number of convertible shares - Outstanding principal of loan/ strike price

(c) Strike price - The lower of an escalating multiple of audited net assets per share as at 31st December 2007 less any dividends as at the conversion date or subscription price in any qualifying Initial Public Offer ('IPO') less any dividends as at the conversion date.

(d) Conversion period - 5 years and one week commencing from 21st December 2007

(e) The convertible loan bears interest at 2.5% above 3 months' LIBOR, payable quarterly.

(f) If the Bank does not launch a successful IPO within 5 years or Credit Suisse does not exercise its conversion right notwithstanding a successful IPO, Credit Suisse is entitled to repayment of principal and a "No-IPO" premium equivalent to internal rate of return of 20% from the date of drawdown less any interest already received.

(g) Upsize options - Subject to certain conditions until the end of 2008 the subordinated convertible loan can be increased up to an aggregate principal amount of USD20 million on essentially similar terms and conditions.

(h) The subordinated convertible loan is supported by a contractual undertaking provided by the shareholder.

The gross proceeds received (net of transaction costs) from the issue of the subordinated convertible loan were split into its liability and embedded derivative components. The values of the embedded equity and currency derivatives were priced using a standard option pricing model based on market and the Bank's assumptions. The residual value, after considering the values of the embedded derivatives, was assigned to the host liability.

	Liability component MNT'000	Embedded derivative component (Note 12) MNT'000	Total MNT'000
At date of issuance, net proceeds	11,335,933	125,206	11,461,139
Effective interest charged during the year	24,082	-	24,082
At 31st December	**11,360,015**	**125,206**	**11,485,221**

As at 31st December 2007, the fair value of the equity and currency deriviatives have been determined based on standard option pricing model.

Subordinated loan from Mongol Post Bank LLC

The subordinated loan is utilised for working capital purposes. The interest rate for the loan is 13% (2006: 13%) per annum. The loan shall be due and payable in full in December 2011.

The Bank has not had any default of principal, interest or other breaches with respect to its subordinated loans during the year.

22. OTHER LIABILITIES

	2007 MNT '000	2006 MNT '000
Payables	6,926,288	3,887,829
Foreign remittance under request	608,278	220,137
Delay on clearing settlement	15,901,803	1,319,758
	23,436,369	**5,427,724**

23. STATUTORY FUND

	Number of shares		Amount	
	2007	2006	2007 MNT '000	2006 MNT '000
At 1st January	-	-	21,934,142	13,434,142
Issued during the year	-	-	-	8,500,000
Converted into ordinary shares with par value of MNT1,000 each	21,934,142	-	-	-
At 31st December	**21,934,142**	-	**21,934,142**	**21,934,142**

On 14th December 2007, the Bank converted its statutory fund to 21,934,142 ordinary shares at par value of MNT1,000 each.

24. CASH AND CASH EQUIVALENTS

	Note	2007 MNT '000	2006 MNT '000
Cash and balances with central bank	**10**	74,529,087	40,130,171
Due from banks	**11**	206,106,834	114,084,513
		280,635,921	**154,214,684**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Note	Carrying value 2007 MNT '000	Fair value 2007 MNT '000	Unrecognised gain/ (loss) 2007 MNT '000	Carrying value 2006 MNT '000	Fair value 2006 MNT '000	Unrecognised gain/ (loss) 2006 MNT '000
Financial assets							
Cash and balances with central bank	**10**	74,529,087	74,529,087	-	40,130,171	40,130,171	-
Due from banks	**11**	206,106,834	206,106,834	-	114,084,513	114,084,513	-
Derivative financial instruments	**12**	2,565,117	2,565,117	-	688,092	688,092	-
Financial investments - available-for-sale							
The Bank of Mongolia treasury bills	**13**	30,825,708	30,825,708	-	14,995,837	14,995,837	-
Unquoted government bond	**13**	3,924,159	3,924,159	-	-	-	-
Unquoted equities	**13**	201,000	201,000	*	1,000	1,000	*
Loans and advances to customers	**14**	323,026,324	325,176,237	2,149,913	174,700,230	170,142,646	(4,557,584)
Other assets	**17**	1,264,755	1,264,755	-	1,412,767	1,412,767	-
Financial liabilities							
Due to banks	**18**	36,819,404	36,819,404	-	20,237,532	20,237,532	-
Due to customers	**19**	512,485,147	512,485,147	-	283,706,768	283,706,768	-
Derivative financial instruments	**12**	2,690,323	2,690,323	-	688,092	688,092	-
Borrowed funds	**20**	21,911,445	22,529,391	(617,946)	6,876,911	7,198,780	(321,869)
Subordinated loans	**21**	15,860,015	15,860,015	-	4,500,000	4,500,000	-
Other liabilities	**22**	23,436,369	23,436,369	-	5,427,724	5,427,724	-
Total unrecognised change in unrealised fair value				**1,531,967**			**(4,879,453)**

* As disclosed in Note 13, the fair value of unquoted equities cannot be reliably measured using valuation techniques.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

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

Assets for which fair value approximate carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposit and variable rate financial instruments.

Fixed rate financial instruments

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

Derivative financial instruments

The fair value of forward foreign currency exchange contracts is calculated by reference to current forward foreign currency exchange rates for contract with similar maturity profiles. The embedded equity and currency derivatives valued using basis option pricing models, taking into account prevailing risk-free interest, the volatility of foreign exchange rates, the estimated spot price and term to maturity.

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2007 MNT'000	2006 MNT'000
Contingent liabilities		
Financial guarantees	5,884,268	1,714,935
Letters of credit	18,552,240	4,167,342
Other	7,612,223	1,505,877
	32,048,731	**7,388,154**
Commitments		
Undrawn commitments to lend	**9,156,733**	**738,007**
Total	**41,205,464**	**8,126,161**

Contingent liabilities

Letters of credit, guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

26. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Undrawn commitment to lend

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

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

Other commitments

	2007 MNT '000	2006 MNT '000
Approved and contracted for:		
Property, plant and equipment	-	**317,751**

Operating lease commitments - Bank as lessee

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

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assts and liabilities analysed according to when they are expected to be recovered or settled. See Note 28.3 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

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	210,328,287	112,698,037	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	36,819,404	-	36,819,404
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**

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

At 31st December 2006	Less than 12 months MNT '000	More than 12 months MNT '000	Total MNT '000
Financial assets			
Cash and balances with central bank	40,130,171	-	40,130,171
Due from banks	109,545,265	4,539,248	114,084,513
Derivative financial instruments	688,092	-	688,092
Financial investments - available-for-sale	14,995,837	1,000	14,996,837
Loans and advances to customers	131,231,907	43,468,323	174,700,230
Other receivables	1,412,767		1,412,767
	298,004,039	**48,008,571**	**346,012,610**
Non financial assets			
Property, plant and equipment	-	3,470,099	3,470,099
Intangible assets	5,307	299,184	304,491
Other assets	3,374,264	-	3,374,264
	3,379,571	**3,769,283**	**7,148,854**
Total	**301,383,610**	**51,777,854**	**353,161,464**
Financial liabilities			
Due to banks	20,237,532	-	20,237,532
Due to customers	283,638,184	68,584	283,706,768
Derivative financial instruments	688,092	-	688,092
Borrowed funds	2,125,589	4,751,322	6,876,911
Subordinated loans	-	4,500,000	4,500,000
Other liabilities	5,427,724	-	5,427,724
	312,117,121	**9,319,906**	**321,437,027**
Non financial liabilities			
Tax payable	**430,371**	**-**	**430,371**
Total	**312,547,492**	**9,319,906**	**321,867,398**
Net	**(11,163,882)**	**42,457,948**	**31,294,066**

28. RISK MANAGEMENT

28.1 Introduction

The main risks inherent in Golomt Bank's operations are credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk, all of which are controlled by the Bank's Risk Management Division as an independent unit reporting directly to the Chief Executive Officer. The primary goal of risk management is to allocate capital to business segments commensurate with their intrinsic risk/reward profiles and to maximize the Bank's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Structure

The Board of Governors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Governors

The Board of Governors is responsible for the overall risk management approach and for approving the risk strategies and principles that establishes the objectives guiding all the bank's activities and innovate the necessary policies and procedures. The risk strategy, as well as significant risk policies, is approved and periodically (at least annually) reviewed by the Board of Governors.

Audit Committee

The Audit Committee, reporting to the Board of Governors, is responsible for overseeing the activities of the Internal Audit Division and the appointment and oversight of the External Auditors.

Asset and Liability Committee ('ALCO')

The Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits relating to interest rate, liquidity and market risks.

Credit Committee

The Committee is responsible directly to the Board of Governors. It is the credit decision making body of the Bank and operates within clearly defined parameters authorised by the Board of Governors. The Committee has the following main functions:

(i) approval of clearly defined Credit Policies and Procedures and amendments and updates,
(ii) approval of risk classification and provisioning levels,
(iii) review of the quality, composition and risk profile of the entire credit portfolio on an ongoing basis,
(iv) approval of credit limits to be applied lending to industrial sectors and geographical regions.

Risk Management Division

The Risk Management Division is responsible for implementing and maintaining risk related policies and procedures to ensure an independent control process.

The Division is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

28. RISK MANAGEMENT (CONTD.)

Internal Audit

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

Risk Measurement and Reporting Systems

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

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

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

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

A monthly briefing is given to the Executive and ALCO Committees on the utilisation of market limits, analysis of VaR and liquidity, plus any other risk developments.

Risk Mitigation

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

Excessive Risk Concentration

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

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

(i) The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed the 20 percent. of the capital of the Bank.

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

28.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

It is the responsibility of the controlling unit to continuously examine, design and improve the quality of standardised formats and reports to ensure that the Bank's ability to manage, monitor and control its lending activities.

As part of the development of a credit culture in the Bank, the Credit Risk Management Division is responsible for the formation of a knowledge pool, experience and expertise within the Bank and establishment of a Credit Training Plan in conjunction with the Human Resource Department. This is an ongoing process and reviewed annually to ensure that the Bank's requirements and any identified skills, shortages or knowledge deficiencies are satisfied.

Credit-related Commitments Risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

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

28. RISK MANAGEMENT (CONTD.)

28.2 Credit risk (contd.)

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

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

	Note	Gross maximum exposure 2007 MNT '000	Gross maximum exposure 2006 MNT '000
Cash and balances with central bank (excluding cash on hand)	**10**	42,491,989	20,222,530
Due from banks	**11**	206,106,834	114,084,513
Derivative financial instruments	**12**	2,565,117	688,092
Financial investments - available-for-sale	**13**	34,950,867	14,996,837
Loans and advances to customers	**14**	323,026,324	174,700,230
Other receivables	**17**	1,264,755	1,412,767
Total		**610,405,886**	**326,104,969**
Contingent liabilities	**26**	32,048,731	7,388,154
Commitments	**26**	9,156,733	738,007
Total		**41,205,464**	**8,126,161**
Total credit risk exposure		**651,611,350**	**334,231,130**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at 31st December 2007 was MNT6,582 million (2006: MNT 3,772 million).

Apart from deposits and placements with other banks and financial institutions amounting to MNT179,597 million (2006: MNT99,055 million), all banking assets and liabilities were geographically concentrated in Mongolia.

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2007 MNT '000	Gross maximum exposure 2006 MNT '000
Agriculture	2,125,425	5,556,359
Construction	46,711,874	10,275,672
Consumers	41,512,942	11,356,728
Education	1,818,714	2,943,360
Electricity and oil	43,360,612	17,406,118
Financial services	249,636,938	132,904,436
Healthcare	7,328,447	665,975
Home business	562,565	807,868
Hotel and restaurant	8,131,126	5,346,055
International organisation	159,012	152,458
Maintenance	3,890,120	1,250,971
Manufacturing	39,992,186	25,412,520
Mining and exploration	22,996,032	12,204,088
Public service	49,922,198	20,225,369
Real estate	14,301,883	11,897,143
Social services	1,759,268	1,501,047
Tourism	1,271,677	648,942
Transportation and communication	17,279,253	9,578,523
Wholesale and Retail	97,586,123	62,684,731
Other	1,264,955	1,412,767
	651,611,350	**334,231,130**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

(i) For corporate lending, charges over real-estate properties, inventory, machineries and automobile.
(ii) For small business lending, charges over real estate properties
(iii) For consumer lending, charges over automobile, electronic appliances and income receivable.
(iv) Residential mortgages, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries, but the potential benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

28. RISK MANAGEMENT (CONTD.)

28.2 Credit risk (contd.)

Collateral and other credit enhancements (contd.)

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit quality per class of financial assets

		Neither past due nor impaired				
As 31st December 2007	Note	High grade MNT '000	Standard grade MNT '000	Sub-standard grade MNT '000	Past due or individually impaired MNT '000	Total MNT '000
Due from banks	**11**	182,930,405	18,530,522	4,645,907	-	206,106,834
Derivative financial instruments	**12**	2,565,117	-	-	-	2,565,117
Financial investments						
- available for sale	**13**	34,749,867	201,000	-	-	34,950,867
Loans and advance to customers						
Corporate lending	**14**	159,828,270	55,228,624	35,413,240	19,487,215	269,957,349
Small business lending	**14**	6,209,083	13,478,918	1,531,755	3,133,933	24,353,689
Consumer lending	**14**	7,982,188	3,593,660	17,374	1,425,336	13,018,558
Residential mortgages	**14**	14,859,759	5,412,035	7,658	1,728,526	22,007,978
Others	**14**	6,788,171	58,720	317,223	838,151	8,002,265
		195,667,471	**77,771,957**	**37,287,250**	**26,613,161**	**337,339,839**
Total		**415,912,860**	**96,503,479**	**41,933,157**	**26,613,161**	**580,962,657**

As 31st December 2006	Note	Neither past due nor impaired High grade MNT '000	Standard grade MNT '000	Sub-standard grade MNT '000	Past due or individually impaired MNT '000	Total MNT '000
Due from banks	**11**	112,054,880	117,165.00	1,912,468.00	-	114,084,513
Derivative financial instruments	**12**	688,092	-	-	-	688,092
Financial investments						
- available for sale	**13**	14,995,837	1,000	-	-	14,996,837
Loans and advance to customers						
Corporate lending	**14**	101,059,093	14,464,288	10,476,460	29,455,120	155,454,961
Small business lending	**14**	4,997,565	9,952,137	1,297,849	2,530,246	18,777,797
Consumer lending	**14**	1,433,538	305,626	-	478,065	2,217,229
Residential mortgages	**14**	4,472,243	2,175,095	-	827,780	7,475,118
Others	**14**	2,336,879	131,345	172,248	472,507	3,112,979
		114,299,318	**27,028,491**	**11,946,557**	**33,763,718**	**187,038,084**
Total		**242,038,127**	**27,146,656**	**13,859,025**	**33,763,718**	**316,807,526**

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

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

At 31st December 2007	Less than 30 days MNT '000	31 to 60 days MNT '000	61 to 90 days MNT '000	More than 91 days MNT '000	Total MNT '000
Loans and advances to customers					
Corporate lending	-	955,832	426,064	4,350,163	5,732,059
Small business lending	137,147	669,472	420,725	1,651,342	2,878,686
Consumer lending	718	550,960	278,918	583,233	1,413,829
Residential mortgages	-	623,447	269,716	835,363	1,728,526
Others	563,472	32,837	44,410	197,493	838,212
	701,337	**2,832,548**	**1,439,833**	**7,617,594**	**12,591,312**
At 31st December 2006					
Loans and advances to customers					
Corporate lending	102,571	3,124,986	1,172,771	3,559,838	7,960,166
Small business lending	75,575	348,114	359,676	1,480,754	2,264,119
Consumer lending	8,027	36,887	83,284	313,894	442,092
Residential mortgages	-	251,564	94,544	460,292	806,400
Others	390,287	15,794	14,636	120,892	541,609
	576,460	**3,777,345**	**1,724,911**	**5,935,670**	**12,014,386**

Of the total aggregate amount of past due but not impaired loans and advances to customers, the fair value of collateral that the Bank held as at 31st December 2007 was MNT 204.82 billion (2006: MNT 79.37 billion). See 'Collateral and other credit enhancements' under Note 28 for the details of types of collateral held.

28. RISK MANAGEMENT (CONTD.)

28.2 Credit risk (contd.)

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

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

	2007 MNT '000	2006 MNT '000
Loans and advances to customers		
Corporate lending	39,104,777	15,639,561
Small business lending	428,557	415,587
Consumer lending	17,374	-
Residential mortgages	14,033	-
Others	317,223	172,247
	39,881,964	**16,227,395**

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and all consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

28.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with The Bank of Mongolia (the Central Bank) equal to 5% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits from banks and other debt and borrowings due to mature within the next month. The ratio during the year was as follows:

	2007 MNT '000	2006 MNT '000
	%	%
31st December	49.3%	53.2%
Average during the period	53.0%	47.3%
Highest	59.3%	53.2%
Lowest	49.3%	43.2%

The table below summarises the maturity profile of the Bank's financial liabilities at 31st December 2007 based on contractual undiscounted repayment obligations. See note 27 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

28. RISK MANAGEMENT (CONTD.)

28.3 Liquidity risk (contd.)

Financial Liabilities	On Demand MNT '000	3 to 6 months MNT '000	6 to 12 months MNT '000	1-5 years MNT '000	Over 5 years MNT '000	Total undiscounted financial liabilities MNT '000
At 31st December 2007						
Due to banks	34,478,000	2,539,714	-	-	-	37,017,714
Due to customers	412,574,021	64,458,177	42,274,867	1,224,023	-	520,531,088
Derivative financial instruments	2,565,117	-	-	125,206	-	2,690,323
Borrowed funds	879,455	3,714,707	7,708,883	15,748,179	1,348,767	29,399,991
Other liabilities						
Subordinated loans	237,945	195,000	713,835	20,985,699	-	22,132,479
Other liabilities	23,105,886	33,666	296,818	-	-	23,436,370
Total	**473,840,424**	**70,941,264**	**50,994,403**	**38,083,107**	**1,348,767**	**635,207,966**
At 31st December 2006						
Due to banks	19,206,572	1,000,000	30,960	-	-	20,237,532
Due to customers	219,820,748	35,546,140	33,740,270	68,584	-	289,175,742
Derivative financial instruments	688,092	-	-	-	-	688,092
Borrowed funds	510,302	883,488	2,008,212	4,544,704	2,559,448	10,506,154
Subordinated loans	97,500	195,000	292,500	6,840,000	-	7,425,000
Other liabilities	5,290,459	125,464	11,801	-	-	5,427,724
Total	**245,613,673**	**37,750,092**	**36,083,743**	**11,453,288**	**2,559,448**	**333,460,244**

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

	On Demand MNT '000	Less than 3 months MNT '000	3-12 months MNT '000	1-5 years MNT '000	Over 5 years MNT '000	Total MNT '000
At 31st December 2007						
Contingent liabilities	32,048,731	-	-	-	-	32,048,731
Commitments	-	687,322	5,919,766	2,409,810	139,835	9,156,733
Total	**32,048,731**	**687,322**	**5,919,766**	**2,409,810**	**139,835**	**41,205,464**
At 31st December 2006						
Contingent liabilities	7,388,154	-	-	-	-	7,388,154
Commitments	-	13,790	197,778	525,039	1,400	738,007
Total	**7,388,154**	**13,790**	**197,778**	**525,039**	**1,400**	**8,126,161**

28.4 Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Governors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31st December 2007.

Currency	Change in basis points	Sensitivity of net interest income MNT'000
At 31st December 2007		
USD	+90	(170.81)
MNT	+90	(567.81)
USD	-120	170.81
MNT	-120	567.81
At 31st December 2006		
USD	+120	(198.86)
MNT	+150	(424.23)
USD	-120	198.86
MNT	-150	424.23

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total for both overnight and intra-day positions, which are monitored daily.

The Board of Governors has set limits of on the level of risk within the foreign exchange portfolio. The Bank applies a VaR methodology with a 99% confidence level to assess the foreign currency positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for changes in foreign exchange quoted by The Bank of Mongolia. VaR is a method used in measuring financial risk by estimating the potential negative change in the foreign currency portfolio held by the Bank at a given confidence level and over a specified time horizon.

28. RISK MANAGEMENT (CONTD.)

28.4 Market risk (contd.)

Objectives and limitations of the VaR Methodology

The Bank uses three VaR methods which are Delta Normal, Monte Carlo simulation and Historical Simulation models to assess possible changes in the foreign currency portfolio based on historical data from the past one year. The VaR models are designed to measure foreign currency risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in foreign exchange and assumes that future exchange rate movements will follow a normal statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large foreign exchange moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual foreign currency results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Foreign currency risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current foreign currency open positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Bank's foreign currency risk management, VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The model is supplementary to the corresponding risk management requirements of The Bank of Mongolia

	Delta Normal MNT '000	Monte Carlo MNT '000	Historical Simulation MNT '000
2007 - 31st December	34,857	37,904	48,513
2007 - Average Daily	45,827	50,755	61,309
2007 - Highest	76,531	84,367	89,327
2007 - Lowest	23,317	25,762	31,324
2006 - 31st December	40,635	43,751	50,600
2006 - Average Daily	41,698	40,832	43,561
2006 - Highest	89,485	96,974	98,780
2006 - Lowest	11,885	12,230	11,643

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses stimulated approach to project the impact of varying levels of prepayment on its net interest income.

The effect on profit before tax for one year, assuming historical prepayment rate for the past one year to prepay at the beginning of the year, with all other variables held constant, is as follows:

	"Effect on net interest income" 2007 MNT '000	"Effect on net interest income" 2006 MNT '000
Loan and advances to customers		
Corporate	(270)	(147)
SME	(58)	(51)
Consumer	(22)	(5)
Mortgage	(17)	(5)
Others	(7)	(2)
	(374)	**(210)**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education, on-going training and assessment processes, including the use of internal audit.

29. RELATED PARTY DISCLOSURES

The Bank is controlled by Bodi International Co. Ltd. which owns 100% of ordinary shares of the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

As at 31st December, the Bank has the following balances and transactions with related parties, which are companies in which the directors have substantial financial interest:

29. RELATED PARTY DISCLOSURES (CONTD.)

		2007 MNT '000	2006 MNT '000
a)	**Loans and advances to fellow subsidiaries**	**2,051,587**	**215,285**
	Bodi Electronics Co. Limited	802,683	176,148
	Bodi Properties Co. Limited	1,169,970	-
	Bodi International Co. Limited	39,797	-
	MPC Co. Limited	39,137	39,137
		2,051,587	**215,285**

The loans and advances to fellow subsidiaries were secured, bore interest rates from 10.68% to 18.0% (2006: 14.4% to 18.0%) per annum and are repayable within one year. The interest income received from such loans during the financial year amounted to MNT 71.52 million (2006: 2.11 million).

		2007 MNT '000	2006 MNT '000
b)	**Deposits from related companies:**		
	Holding company	5,443	164,076
	Fellow subsidiaries	2,937,906	1,736,941
		2,943,349	**1,901,017**

The deposits from the above related companies bore interest rates from 3.00% to 13.20% (2006: 3.00% to 13.20%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT149.29million (2006: MNT72.74 million).

		2007 MNT '000	2006 MNT '000
c)	**Purchase of computers and software from fellow subsidiaries**	**399,480**	**206,003**
d)	**Rental of garage to fellow subsidiaries**	**-**	**1,672**

		2007 MNT '000	2006 MNT '000
e)	**Compensation of key management personnel**		
	Salaries	61,685	59,907
	Contribution to social and health fund	11,720	11,382
		73,405	**71,289**

f) Lease agreement with Bodi International Co. Limited

In November 2002, the Bank moved to its Head Office located at Sukhbaatar Square 3, Ulaanbaatar, Mongolia. The building is owned by the holding company, Bodi International Co. Limited.

The Bank entered into a lease agreement for 6 years until the year 2008. The bank has prepaid the lease payment amounting to MNT3.2 billion in 2003. As at 31st December 2007, the balance of prepayment is MNT 570.64 million (2006: MNT1,094 million). Further details of the lease arrangement are disclosed in Note 28.

30. CAPITAL ADEQUACY

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

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

Capital management

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

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

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 5% and risk weighted capital ratio of at least 10%, compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31st December are as follows:

	2007	2006
Core capital ratio	10.14%	14.58%
Risk weighted capital ratio	**14.39%**	**16.68%**

	2007 MNT '000	2006 MNT '000
Tier I capital		
Statutory fund	21,934,142	21,934,142
Retained earnings	16,737,647	9,359,924
Total Tier I Capital	**38,671,789**	**31,294,066**
Tier II capital		
Subordinated loans	**16,199,700**	**4,500,000**
Total capital /capital base	**54,871,489**	**35,794,066**

30. CAPITAL ADEQUACY (CONTD.)

The breakdown of risk weighted assets into the various categories of risk weights as at 31st December was as follows:

	2007		2006	
%	Assets MNT '000	Risk Weighted MNT '000	Assets MNT '000	Risk Weighted MNT '000
0	104,052,020	-	54,346,543	-
10	-	-	-	-
20	178,266,014	35,653,203	111,911,673	22,382,335
50	40,905,598	20,452,799	1,623,042	811,521
100	325,223,806	325,223,806	191,441,790	191,441,790
Total	**648,447,438**	**381,329,808**	**359,323,048**	**214,635,646**

31. COMPARATIVES

The presentation and classification of items in the current year's financial statements has been consistent with the previous financial year except that certain comparative amounts as at 31st December 2006 have been reclassified with the adoption of IFRS 7.

	As previously stated MNT '000	Adjustments MNT '000	As restated MNT '000
Income statement			
Fees and commission expenses	-	1,015,137	1,015,137
Other operating expenses	**7,194,547**	**(1,015,137)**	**6,179,410**

32. MONGOLIAN TRANSLATION

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