GOLOMT BANK OF MONGOLIA

ANNUAL REPORT 2009

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Contents

D. **Bayasgalan**
Chairman of the Board of Governors

REPORT OF THE CHAIRMAN OF THE BOARD OF GOVERNORS

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

Once again it is my privilege and pleasure to report to you upon the results of the Bank's operations during 2009.

As is only too widely known, the year proved to be one of unprecedented challenge as initial fears of a second Great Depression gave way to welcome signs of economic recovery attributable to radical and unprecedented policy stimulus in both industrialized and emerging market economies.

As an important export orientated nation, the economy of Mongolia experienced great strains in the early months of the year as commodity prices (particularly copper which fell by 70 per cent.) and export volumes exhibited precipitous declines. In turn these exacerbated domestic pressures upon money supply and the parity of the Tugrug as foreign exchange reserves came under increasing pressure, leading to a sharp reduction in confidence and business output in the first quarter.

However, in parallel with developments in the major global economies, confidence began to return during the second quarter of the year when effective macro-economic policy measures underpinned by an IMF Stand-By Arrangement and a most welcome recovery in commodity prices combined to arrest the process of devaluation of the Tugrug. This favourable juxtaposition of buoyant commodity prices and resilient export volumes underpinned by strong demand from China resulted in improving current account and balance of payments performance; a 100 per cent. increase in foreign reserves; a constrained budgetary deficit and renewed growth in private sector deposits in the banking system throughout the third and fourth quarters.

Notwithstanding the challenges endured in the early months of the year I am pleased to report that Golomt Bank enjoyed yet another positive year achieving our fourteenth consecutive year of record profitability.

Post-tax profit rose by 8 per cent. to reach MNT 13.2 billion (equivalent to USD 9.1 million) up from MNT 12.2 billion in 2008 while total assets rose by 45 per cent. to surpass the critical MNT 1 trillion milestone.

Record operating earnings of MNT 37.3 billion (USD 25.8 million) reflected enhanced interest earnings underpinned by robust growth in non-asset based revenues and effective cost management, as demonstrated by the cost/income ratio of 44.9 per cent. Overall profitability ratios remained effectively constant with net interest margin of 4.1 per cent. contributing to the return on equity of 22.5 per cent. resulting in the capital account reaching MNT 78.5 billion (USD 54 million) within which Tier 1 equity constitutes over 80 per cent..

The balance sheet showed very significant growth with total assets rising from MNT 697.2 billion to reach MNT 1,013.1 billion (USD 702.2 million): total deposits rising by 57.4 per cent. from MNT 505.2 billion to MNT 795.3 billion (USD 551 million) and total loans and advances rising by MNT 60.3 billion to reach MNT 523.3 billion (USD 362.7 million). Balance sheet ratios proved similarly robust with the advances/deposits ratio being constrained at a very conservative 63.5 per cent. while the capital adequacy ratio of 13.4 per cent. comfortably surpasses the minimum stipulated level of 12 per cent.. Likewise, the liquidity position remains exceptionally strong at 51.7 per cent.. The stringency and efficacy of the Bank's credit policies was manifest in the Non Performing Loans ratio rising only moderately to 4.4 per cent. from 3.9 per cent., less than half the systemic average. At the year end the Bank held 34 per cent. of the capital of the Mongolian banking system; 26 per cent. of total deposits and 21 per cent. of total loans.

Golomt Bank was founded fifteen years ago in March 1995 as one of the first private sector banks in the country. It was founded and remains 100 per cent. Mongolian owned through the Bodi Group while we continue to strengthen our capital base through strategic affiliations with leading international institutions.

The Bank has long been recognized as a pioneer in the Mongolian financial and banking sector holding a dominant market share of 60 per cent. in both card and international payments; 50 per cent. in international trade finance; and 40 per cent. in foreign exchange transactions. In recognition of these and related revenue and non-revenue achievements which distinguish Golomt Bank from our competitors we were all gratified by the award of "Bank of the Year" by The Banker; the world's oldest and most prestigious financial journal.

Once again, I would like to thank first, our valued clients and correspondent banks for the business which they entrust us; secondly, all the citizens, companies and communities throughout Mongolia for the confidence which they continue to repose in the Bank; thirdly, the Minister of Finance and Governor of The Bank of Mongolia and their officials for their support and guidance; fourthly, our 900 loyal, diligent and dedicated staff members whose efforts contribute so much to our continued success and, finally, to our Shareholder, Bodi International L.L.C for their combined contribution in managing to steer a successful course through a year of such great challenge.

Prospects for both the economy of the Motherland of Mongolia and the Bank itself in 2010 and the years ahead look very optimistic following the conclusion of the Investment Agreement (and fulfillment of all conditions precedent) for the Oyu Tolgoi copper and gold project which is the world's largest unexploited copper reserve. In addition, the Government has made great progress towards finalizing the structure for the monetization of the Tavan Tolgoi metallurgical coal project which is also the world's largest undeveloped coal reserve. These plus the coalition Government's broadly based social development programmes mean that we can look forward with confidence to a period of exponential growth as our economy progresses steadily towards full maturity.

As has been the case throughout our 15 year history all of us in Golomt Bank stand ready to support our Government, institutions, companies, individuals, foreign investors and correspondent banks with the provision of the widest range of financial services to contribute to and benefit from our expanding national output and improving welfare as we continue to serve our nation and our clients to the very best of our abilities.

D. Bayasgalan
Chairman of the Board of Governors

John P. Finigan
Chief Executive Officer

REPORT OF THE CHIEF EXECUTIVE OFFICER

To All our Greatly Valued Stakeholders

In seeking to structure a retrospective analysis of the unprecedented turbulence which buffeted the business and financial conditions experienced within Mongolia and its economy during the course of 2009, nothing seems more appropriate than to borrow an analogy from the sporting world and to describe it as a year of two halves.

The global economy and international capital markets faced a truly exceptional year in terms of fluctuating confidence and fortunes, plumbing the depths to absolute historic lows in the first quarter. Unprecedented challenges called for unconventional policy responses and these rapidly emerged with a coordinated round of monetary policy through quantitative easing entailing Central Bank purchases of securities and liquidity stimulus in the major OECD economies. The long-term fiscal consequences of the unprecedented monetary policy profligacy and its impact upon future growth rates remain to be addressed in the economic environment in which the weaknesses of hitherto universally espoused theories of efficient market hypothesis and rational expectations have been cruelly exposed by the more heterodox solution.

However, it cannot be gainsaid that as a short-term palliative the measures proved successful in banishing the fearsome specter of depression which had overhung the markets and drained away almost all remaining confidence. The result of such quantitative easing and policy stimulus was a reversal of negative sentiment transforming into renewed confidence and leading in turn to inventory rebuilding plus, in the case of the Asian economies, a recovery in international trade feeding through into significant strengthening of commodity and asset prices.

In the case of Mongolia, after seven years of near double digit growth the economy had fallen into sharp reversal by the end of 2008 as the global financial crisis began to have a severe impact upon the country's open export oriented economy. Thereafter, the first quarter exhibited many characteristics of a vicious downward spiral with the lingering impact of a bank failure; falling deposits in the banking system; still high inflation; a vertiginous fall in export values; and declining official reserves all combining with the seasonality factor of the country's harsh winter to depress business confidence and output.

Fundamental reform measures were called for and were duly implemented through a policy of monetary easing and entering an IMF Standby Arrangement with stringent budgetary and fiscal constraints. These endogenous measures were supplement by the favourable exogenous global factors identified above, most important of which was the recovery in commodity prices. Confidence was restored and the short-lived downward spiral was replaced by a more favourable virtuous circle of increasing export volumes (albeit with lagging export values); currency stability and renewed growth in banking system deposits underpinned by the favourable seasonality impact of the country's wonderful spring and summer climate.

The eventual favourable outlook for the national economy is presented in comprehensive fashion in the Economic Review section which immediately follows: suffice it to say that while export values fell by 25 per cent. to USD 1.903 billion in volume terms, there were major advances with crude oil exports up 81 per cent. (as the country became an oil exporting nation) coal exports up 70 per cent. and iron ore exports up 56 per cent.. Imports fell sharply to USD 2.131 billion resulting in a much reduced trade gap of USD 228.7 million from the 2008 level of USD 710 million.

These positive trade developments fed through to GDP rising by 0.6 per cent. in nominal terms, while falling only 1.6 per cent. in nominal terms notwithstanding a 13.8 per cent. devaluation of the MNT against the USD over the course of the year. Both final consumption and gross capital formation declined moderately to 70 per cent. and 35 per cent. respectively. The budgetary deficit of USD 227.8 million was contained at a moderate 5.4 per cent. of GDP while consumer price inflation was successfully brought down to 4.2 per cent. on a calendar year-on-year basis.

Against this generally propitious background prevailing during the latter months of the year, Golomt Bank recorded another year of solid progress with assets increasing by 45 per cent. surpassing the MNT 1 trillion barrier to reach MNT 1,013 billion (equivalent to USD 702 million) while deposits rose by 57 per cent. to reach MNT 795 billion (USD 551 million) and net loans by 13 per cent. to reach MNT 505 billion (USD 350 million).

The depreciation of the MNT against the USD and CNY gave rise to a consequential increase in our MNT denominated financial statements. Stripping out this impact of this exceptional movement the underlying growth metrics reflected asset growth of 36 per cent.; deposit growth of 48 per cent. and loan growth of 7 per cent.. It is particularly noteworthy that our aggregate growth in absolute terms in each category was 45 per cent., 57 per cent. and 13 per cent. respectively and materially outpaced that of the banking system as a whole which saw asset growth of 21 per cent.; deposit growth of 29 per cent. while net loans outstanding declined by 7 per cent.. For considerable periods of the year Golomt Bank was the only major bank in Mongolia which kept its loan window open, despite the initially very challenging environment, in order to meet the ongoing working capital requirements of our corporate clients and sustain their operations in challenging times. We worked closely with a number of long standing clients in order to keep businesses functioning and jobs secured.

Capital grew to MNT 78.5 billion (USD 54.4 million) with Tier 1 equity amounting to over 80 per cent.. While the non-performing loan portfolio rose by MNT 6.7 billion to reach MNT 22.9 billion, in percentage terms the increase proved containable, rising from 3.9 per cent. at the end of 2008 to 4.4 per cent. by the year end.

In terms of profitability metrics, in the first half-year we chose to eschew revenue growth to secure greater balance sheet strength while in the second half we reverted towards equilibrium with assets and profitability growing in tandem. The resultant outcome was perceived as satisfactory in all the circumstances with profits rising for the fourteenth consecutive year to reach MNT 13.2 billion (USD 9.13 million) constituting a return on assets of 1.6 per cent. and a gratifying return on equity of 22.5 per cent..

Net interest margin was compressed in the early months of the year as aggregate deposits in the system continuously contracted from April 2008 until rebuilding from the end of the second quarter when volume growth and favourable pricing elasticity contributed to an 18 per cent. increase in interest income which offset our higher funding costs, leaving net interest income of 4.1 per cent. effectively static year-on-year although falling by 7 per cent. in absolute terms.

Fee and commission income rose by 24 per cent. to reach MNT 10.6 billion (USD 7.34 million) with underlying growth in all constituents, most notably remittance and service fees for credit related fees and commissions. Other operating income rose almost threefold reflecting successful hedging strategies and increased foreign exchange transaction volumes.

Operating expenses remained well controlled rising by 10 per cent. all of which constituted increased salaries and bonus expenditure resulting in a slight increase in the cost income ratio from 43.8 per cent. to 44.9 per cent..

The welcomed reduction in credit loss expense camouflaged a sharp and unwelcome rise in consumer lending which is being effectively addressed by comprehensive remedial measures.

Golomt Bank has long been recognized as the pioneer in bringing best international financial practices to Mongolia. In 2009 we celebrated the 10th anniversary of our introduction of charge and credit cards to Mongolia and continued our pioneering role with a number of major initiatives of which the most notable were:

- implementation of the new Grapebank 3 operating platform (the most sophisticated core banking system in the country);
- introduction of the IATA BSP (Billing and Settlement Programme) for the nation's aviation and travel sector;
- established a dedicated South Korean Department led by a very experienced Korean international banker;
- established a dedicated Investment Banking function;
- major enhancements to our innovative internet and mobile banking delivery platforms;
- opened four new branch units (with a further three already established in the first quarter of 2010);
- doubled the ATM network coverage;
- introduced the first Dual currency credit cards;
- introduced Paypass cards;
- launched the world's first CNY credit card outside Mainland China;
- expanded domestic and international professional training programmes for all our greatly valued employees;
- strengthened corporate governance in accordance with the new Banking Law.

As is only to be expected we continue to develop our systems, products, client services and delivery channels to create new opportunities to benefit and the evolving needs of all our valued existing and prospective clients throughout the vast Motherland of Mongolia.

We were honoured by the award of "Bank of the Year: Mongolia" by the renown journal "The Banker", the "Excellence in Corporate Social Responsibility Award" for the second consecutive year, as well as the "Top Bank 2009" awarded by the Mongolian National Chamber of Commerce which has by now become a traditional citation. In addition, early in 2010 the long and meritorious service of 10 of our long-serving officers was formally recognized by the award of the nation's highest honours in the form of State medals, while 38 of our employees at all levels of the staff cadre received merit awards as best employees in the banking sector from The Bank of Mongolia, our Central Bank.

As we contemplate business prospects during 2010 and the years beyond Golomt Bank can face the future with confidence. Our business model built upon the paramount principles of:

- liquidity;
- capital;
- proactive risk management ; and
- firm cost discipline;

has proved robust as we were able to demonstrate strength, diversity and resilience to successfully withstand the most severe test endured over the course of the past decade. We remain highly liquid and strongly capitalised with a robust funding profile supplemented by a firm grip on risks and costs. We will continue our policy of augmenting our capital base through affiliations with leading international institutions in similar fashion to our existing relationship with Credit Suisse. This will enable us rapidly to increase our legal lending limit to meet the expanding financial requirements of our domestic and international borrowing clients. Our increased capital base will further enhance our sustainable advantage while enabling us to deliver to all our valued clients the widest range of banking and financial services in the most efficient manner at the lowest possible cost. As we publish this Annual Report we are in the final documentary phase of an additional subordinated convertible loan facility from a leading Gulf Co-operation Council Sovereign Wealth Fund, which can progressively increase our capital base by over 60 per cent..

As is the only appropriate course for prudent bankers we retain a degree of caution as to the global macro-economic outlook. We anticipate the path of the global recovery to be saw-toothed or an inverted lightening strike with the underlying positive momentum still subject to short-term reversals in sentiment. Global growth is unlikely to match that of the previous boom years due to a combination of consumer de-leveraging, credit constraints and fiscal tightening. Nonetheless we remain sanguine that the combination of Asian dynamism with our physical contiguity with China and its burgeoning economy will continue to serve Mongolia well, so that both the country's and the Bank's future performance will continue upon an upward trajectory.

Our confidence in future prospects reflects not merely the favourable external environment but is strongly underpinned by the successful conclusion of the Investment Agreement whereby the Government, in partnership with Rio Tinto and Ivanhoe Mines is moving rapidly ahead with the development of the Oyu Tolgoi mine in the South Gobi.

With proven resources of 39 million tonnes of copper and 58 million ounces of gold with a present market value in excess of USD 341 billion and aggregate capital expenditure in the first phase of USD 5 billion (larger than current GDP), this project will prove truly transformational for the national economy both during the development phase (through the multiplier effect upon increased domestic expenditures) as well as after export revenues begin to flow from 2013 onwards.

In similar fashion the nearby Tavan Tolgoi metallurgical coal deposit with proven reserves of over 6.3 billion tonnes and a current market value of over USD 1 trillion and projected, capital development expenditures of USD 2.5 billion will contribute to the exponential growth of the economy over the immediate years ahead. In addition to these primary extractive industrial projects the country will benefit from efficient and environmentally sensitive exploitation of its uranium and crude oil reserves supplemented by a major infrastructural development programme embracing roads, railways, power and energy, plus residential, educational and medical construction projects.

Mongolia remains today a nation with very proud heritage and an even brighter future. All of us in Golomt Bank remain at your service to contribute in every possible way to the realization of those aspirations which will contribute to the growth of the national economy and the increased prosperity of all its citizens.

John P. Finigan
Chief Executive Officer

ECONOMIC REVIEW

GDP AND EXTERNAL TRADE

Evolution of Mongolia's GDP during 2009 proved very stochastic with sharp falls in output in the first half of the year being clawed back as export volumes and subsequently revenues held up more firmly in the latter half. The slowdown in economic activity after six prior years of solid growth averaging 8.62 per cent. per annum was most pronounced in the construction, trading, hospitality and financial sectors.

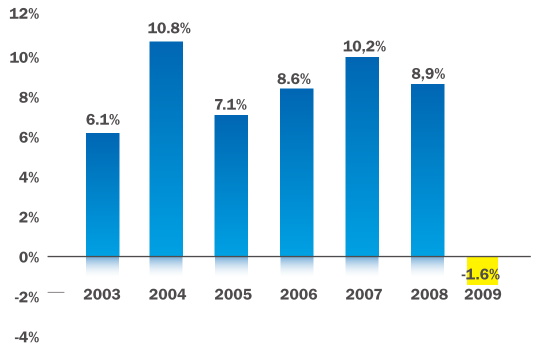
Exports accounted for 45 per cent. of GDP while volumes for all principal sectors except gold remained robust. Export revenues declined by 25 per cent. from their 2008 levels and amounted to USD 1.9 billion. In volume terms exports of copper concentrate remained effectively constant over the year rising marginally by 1 per cent. while crude oil, coal, molybdenum, iron ore and zinc registered significant increases of 81, 70, 66, 56 and 10 per cent. respectively, reflecting increasing Chinese demand for Mongolia's rich factor endowment.

Chinese demand for imported copper rose by 119 per cent. contributing significantly to price rise of up to 140 per cent. on the London Metals Exchange. With gold prices remaining firm throughout the year (averaging USD 972 per ounce), the gold mining sector enjoyed another positive year although its revenue impact did not appear to flow through fully into the official trade statistics. Exports of unwashed cashmere rose by 85 per cent. while those of combed and dehaired cashmere rose by 2 per cent..

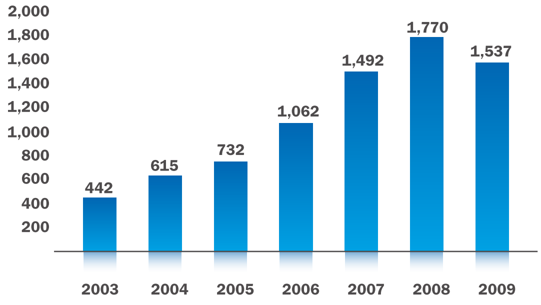
Import volumes and values declined markedly as a natural corollary to first, the welcome reduction in petroleum and diesel fuel prices and, secondly, the sharp decline in business activity in the early months coupled with currency weakness which led to much reduced demand in all categories of imports, most notably in construction materials, capital equipments and vehicles. Import volumes contracted, falling by 35 per cent. from USD 3.25 billion in 2008 to USD 2.13 billion resulting in a sharply reduced trade deficit of USD 229 million in contrast to the deficit of USD 710 million recorded in 2008. The trade figures, however, naturally reflected the impact of the 14 per cent. devaluation of the Tugrug over the course of the year.

As a result of this encouraging trade performance underpinned by resilient domestic output which grew by 20 per cent., aggregate GDP rose by 0.6 per cent. in nominal terms to reach MNT 6.055 trillion while falling by 1.6 per cent. in real terms thus generating a more resilient outcome than had been foreseen in the early months of the year when commodity prices reached their nadir. In 2009 the population grew by 1.9 per cent. reaching 2.737 million from 2.684 million in 2008. The population increase taken together with the moderate increase in GDP, however, resulted in a decrease in *per capita* GDP from USD 1,819 to USD 1,532 while remaining constant terms of our domestic currency, the Tugrug.

Real GDP Growth Rates (%)



GDP per Capita (USD)



Source: National Statistical Office, January 2010

The economy is projected to grow strongly from 2010 onwards, thanks to robust commodity price levels on international markets and year-by-year increasing foreign direct investment focused principally upon the mining sector. While there was a welcome degree of progress across the whole mining sector, two developments were particularly noteworthy. First, the Government signed an Investment Agreement with Ivanhoe Mines and Rio Tinto to develop the Oyu Tolgoi mine, which is estimated to entail additional capital expenditures in excess of USD 4 billion over the next two and a half years and generate export earnings of USD 7.5 billion annually once production becomes fully operational from 2013 onwards. In addition, considerable progress was made towards finalising the development structure of the Tavan Tolgoi metallurgical coal project, with estimated capital costs of USD 2.5 billion and projected export revenues in excess of USD 8 billion annually from 2012 onwards.

Key Economic Indicators

	2005	2006	2007	2008	2009
Population (000s)	2,562	2,595	2,635	2,684	2,737
Population growth, (%)	1,2	1.2	1.5	1.8	1.9
GDP, (USD million)	2,067	3,189	3,931	4,837	4,197
GDP growth, (%)	7,3	8.6	10.2	8.9	-1.6
GDP per capita, (USD)	894	1,237	1,490	1,819	1,532
Inflation, (%)	11,6	6	18	22	4
MNT/USD exchange rate (year end)	1,221	1,165	1,170	1,268	1,443
Export, (USD million)	1,054	1,543	1,948	2,535	1,903
Trade balance, (USD million)	-95	107	-114	-710	-229
# of banks	17	16	16	16	15
Bank reserves, (USD million)	868	1,992	2,892	2,880	3,065
Loans/GDP (%)	33	33	47	44	44
NPL, (%)	6	5	3	7	17

Source: National Statistical Office, January 2010

GDP Structure

	2005	2006	2007	2008	2009
Nominal GDP, MNT billion	2,524.3	3,172.4	4,599.5	6,019.8	6,055.8
Real GDP Growth	7.10%	8.60%	10.20%	8.90%	-1.60%
GDP per capita, MNT thousand	893.5	1,236.70	1,745.44	2,243.26	2,213
GDP Growth by Sectors:					
Agriculture	9.60%	7.50%	15.80%	5.80%	1.50%
Mining & Extractive Industries	19.90%	6.30%	2.90%	-2.90%	3.70%
Manufacturing	10.90%	13.40%	29.00%	3.80%	-11.10%
Electricity, gas & Water supply	-17.40%	4.50%	7.50%	9.20%	3.80%
Construction	0.80%	5.10%	8.50%	-12.80%	-48.80%
Wholesale & Retail trade	15.40%	15.30%	6.70%	16.20%	-26.60%
Hotels & Restaurants	6.20%	9.90%	16.00%	6.90%	-23.00%
Transport & Communications	17.30%	12.10%	26.60%	20.50%	12.10%
Financial intermediation	19.70%	-3.20%	30.20%	19.90%	-20.40%
Real estate	14.30%	5.40%	-1.70%	19.60%	2.80%
Public Administration & Defence	3.80%	0.50%	4.50%	4.20%	4.20%
Education	3.40%	4.40%	2.10%	7.50%	1.70%
Health & Social work	-3.00%	9.30%	10.70%	5.80%	3.30%

Source: National Statistical Office, January 2010

Exports comprise ten narrowly defined items, the majority of which constitute mining products such as copper concentrate, coal, and gold with mineral exports accounting for 90 per cent. of total exports. Among the principal ten export items three products, namely, coal, crude oil, and unwashed cashmere, exhibited double digit volume increases ranging between 12 and 65 per cent. while the remainder experienced decreases ranging between 6 and 50 per cent., compared to the levels of 2008. However, by the second half of the year, significant growth in the volume of all ten components was witnessed. Exports of crude oil, coal, molybdenum, iron ore, and zinc registered impressive increases of 81, 70, 66, 56 and 10 per cent., respectively, while exports of gold and copper concentrate remained constant. Exports of the only two non-mining products, combed and unwashed cashmere registered growth of 2 and 85 per cent. in the second half of the year over their 2008 levels.

As a consumer oriented economy, there is a high propensity to import a great variety of products ranging from machinery to food. Nine broadly defined items account for over 90 per cent. of imports. In 2009, total imports declined by 34 per cent. amounting to USD 2,131 million, as values of minerals (mainly oil) and transportation products fell by 41 per cent.. The significant declines in all major categories of imports were jointly attributable to the impact of currency weakness as well as the welcome reduction in petroleum and diesel fuel prices.

Overall, foreign trade turnover decreased by 30 per cent. falling to USD 4,034 million while the trade deficit declined by 68 per cent. falling to USD 229 million. Consequently, the negative share of external trade within aggregate GDP fell by 30 per cent. in 2009.

Foreign trade (USD million)

	2007	2008	2009	'09/'07	'09/'08
Total exports	**1,947**	**2,534**	**1,903**	**(2%)**	**(25%)**
Copper concentrate	811	836	502	(38%)	(40%)
Gold	235	600	336	43%	(44%)
Coal	116	185	305	163%	65%
Zinc ore	176	155	122	(30%)	(21%)
Crude Oil	53	102	114	114%	12%
Washed cashmere	63	77	92	45%	19%
Iron ore	16	92	87	444%	(6%)
Cashmere	114	99	68	(40%)	(31%)
Molybdenum	76	82	53	(31%)	(36%)
Fluorspar ore	45	59	30	(34%)	(50%)
Total imports	**2,062**	**3,245**	**2,131**	**(3%)**	**(34%)**
Mineral products	603	964	567	(6%)	(41%)
Machinery	424	606	423	(0%)	(30%)
Transportation products	223	459	269	21%	(41%)
Food	159	231	182	15%	(21%)
Iron products	164	267	164	0%	(39%)
Chemical products	108	151	128	18%	(15%)
Herbal products	79	160	98	23%	(39%)
Plastic products	67	84	66	(2%)	(21%)
Stone, cement	47	66	52	11%	(21%)
Foreign trade turnover	**4,009**	**5,779**	**4,034**	**1%**	**(30%)**
Foreign trade balance	**(114)**	**(710)**	**(229)**	**(100%)**	**68%**

Volume of Total exports

	2007	2008	2009	'09/'07	'09/'08
Copper concentrate ('000 tonnes)	607.8	582.9	586.9	(3%)	1%
Gold (tonnes)	11.6	22.1	11.7	1%	(47%)
Coal ('000 tonnes)	3,269.0	4,169.3	7,087.4	117%	70%
Unclean cashmere (tonnes)	1,510.5	1,929.2	3,576.6	137%	85%
Zinc ore ('000 tonnes)	132.6	137.5	150.7	14%	10%
Oil ('000 barrels)	812.3	1,058.9	1,919.4	136%	81%
Iron ore ('000 tonnes)	240.4	1,013.1	1,576.1	556%	56%
Cashmere (tonnes)	1,784.5	1,587.8	1,623.3	(9%)	2%
Molybdenum ('000 tonnes)	3.2	4.1	6.8	113%	66%
Fluorspar ore ('000 tonnes)	360.0	348.8	147.0	(59%)	(58%)

STATE BUDGET

Despite the many exogenous pressures, the Government sought to sustain a counter-cyclical fiscal policy maintaining current expenditures close to their prior year level in order partially to compensate for declining levels of private sector activity while constraining capital expenditures. State income fell by 8 per cent. to reach the level of MNT 1.993 trillion with non-tax income increasing by 42 per cent. to reach MNT 350 billion. Meanwhile total expenditures at MNT 2.322 trillion remained close to the prior year level, declining by only 6 per cent.. The net outcome was a fiscal deficit of MNT 328.6 billion which constituted an increase of 8 per cent. in absolute terms over the prior fiscal year while equating to 5.4 per cent. of GDP.

In greater detail, on the expenditure side, three of the six categories saw cuts averaging 17 per cent. while three experienced increases averaging 22 per cent.. Product services, capital expenditure, and net loans witnessed cuts with capital expenditure and net loans falling most, by 27 per cent. and 18 per cent., respectively. Salary wages, loan payments, and charges and transfers all registered increases within which loan payments and charges and transfers increased most, by 46 per cent. and 14 per cent., respectively.

State budget (MNT billion)

	2007	2008	2009	'09/'07	'09/'08
Total Budget income	**1,880.5**	**2,156.4**	**1,993.0**	**6%**	**(8%)**
Tax income	1,502.3	1,888.9	1,615.3	8%	(14%)
Non tax income	353.7	247.2	350.3	(1%)	42%
Aid income	22.0	15.9	24.5	0%	55%
Asset income	2.5	4.4	3.0	17%	(33%)
Total budget expenditure	**1,747.3**	**2,462.0**	**2,321.6**	**33%**	**(6%)**
Product services	672.7	1,030.7	969.5	44%	(6%)
Salary wages	296.3	543.1	578.9	95%	7%
Loan payments	18.6	19.8	29.0	56%	46%
Charges & transfers	676.4	699.0	793.6	17%	14%
Asset expenditures	299.5	624.9	457.9	53%	(27%)
Net loans	80.1	87.6	71.6	(11%)	(18%)
Budget balance	**133.2**	**-305.7**	**-328.6**	**(347%)**	**8%**

On the revenue side, half of the four income categories recorded increases while the remaining half experienced decreases. Non tax income and aid income both recorded increases averaging 48 per cent. whereas tax and asset income recorded decreases averaging 23 per cent..

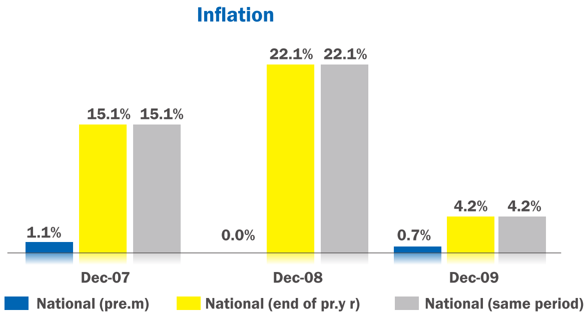
INFLATION

After the ravages of unacceptably high inflation which peaked at 32 per cent. on a year-on-year basis in August 2008, the authorities achieved great success in reducing year-on-year inflation to 4.2 per cent. by the year end. In this they benefitted greatly from the successful stabilization of the Tugrug following the introduction of a bi-weekly auction system for sales and purchases through The Bank of Mongolia, which resulted in a stable exchange regime entailing effectively a policy of managed float oscillating within a tight 2 per cent. band from an equilibrium rate of MNT 1425=USD 1 from April onwards.

At that time monetary policy was tightened drastically with the policy rate rising from 10.25 per cent. to 14 per cent. before moving to a more accommodative stance and progressive reductions of the policy rate to 10 per cent. by the year end.

Inflation level (year-on-year)

	Dec-07	Dec-08	Dec-09
Food products, beverages and water	24.5%	24.5%	-0.5%
Alcohol and cigarettes	-1.2%	8.8%	22.4%
Clothes, shoes	2.1%	26.1%	3.6%
Apartment rental, water, electricity & petroleum	7.0%	17.3%	-3.8%
Home furniture	12.5%	14.8%	6.3%
Pharmacy and hospital services	18.6%	27.6%	14.2%
Transportation	10.7%	33.8%	-0.8%
Overall Index (year-on-year)	**15.1%**	**22.1%**	**4.2%**



BANKING AND FINANCIAL SYSTEM

Money supply (M2) rose by 27 per cent. over the course of the year to reach MNT 2.88 billion or 48 per cent. of GDP, while total assets within the banking system rose by 21 per cent. to reach MNT 4.422 trillion, equivalent to USD 3.06 billion which itself equates to 73 per cent. of GDP.

Total deposits within the banking system rose by MNT 648 billion to reach MNT 2.917 trillion, equivalent to USD 2.02 billion, while net loans recorded a fall of 6.8 per cent. from MNT 2.569 trillion at the end of 2008 to only MNT 2.395 trillion at end 2009 as systemic liquidity remained tight throughout much of the year before the aggregate liquidity ratio rose to 41.5 per cent. by the year end. The systemic loans to deposits ratio showed significant improvement declining from 113 per cent. at the prior year end to 81 per cent. by December 2009.

The impact of the recession was very clearly felt in the dramatic growth in non-performing loans which by year end had risen to MNT 492 billion, a 154 per cent. increase over the level of MNT 194 billion recorded at the end of 2008. This disturbing ratio includes the impact of two banks which recently failed and which entered either conservatorship or bankruptcy (in the latter case to be superseded by a nationalized institution eponymously titled State Bank).

2009 also witnessed the first of the long mooted consolidations within the domestic banking sector with the merger of the former Mongol Post Bank and Savings Bank into a new institution bearing the latter name. At the time of their amalgamation the two banks held 8.5 per cent. of the assets and of 9.4 per cent. of the loans outstanding in the banking system.

Main Indicators of the Banking System

	2005	2006	2007	2008	2009
# of Banks	17	16	16	16	**15**
# of Bank Offices	731	832	981	1,080	**1,044**
Population per Bank office	3,501	3,132	2,686	2,485	**2,624**
Total Assets (USD million)	1,298	1,992	2,892	2,880	**3,065**
Total Deposits (USD million)	819	1,248	1,900	1,790	**2,022**
Total Loans (USD million)	752	1,075	1,860	2,142	**1,887**
Deposits per person (MNT '000)	270	374	575	566	**719**
Assets to GDP Ratio	70.0%	62.5%	73.6%	59.5%	**73.0%**
Loans to GDP Ratio	36.8%	32.9%	47.3%	44.3%	**45.0%**
Total Capital to GDP Ratio	9.1%	7.9%	8.2%	5.6%	**3.8%**
Non-performing Loans (%)	5.4%	4.7%	3.1%	7.1%	**17%**
Average Capital Adequacy	20.1%	19.4%	15.6%	11.9%	**8.2%**
# of Non-bank Financial Institutions	150	163	137	132	**172**

ORGANIZATIONAL DEVELOPMENT

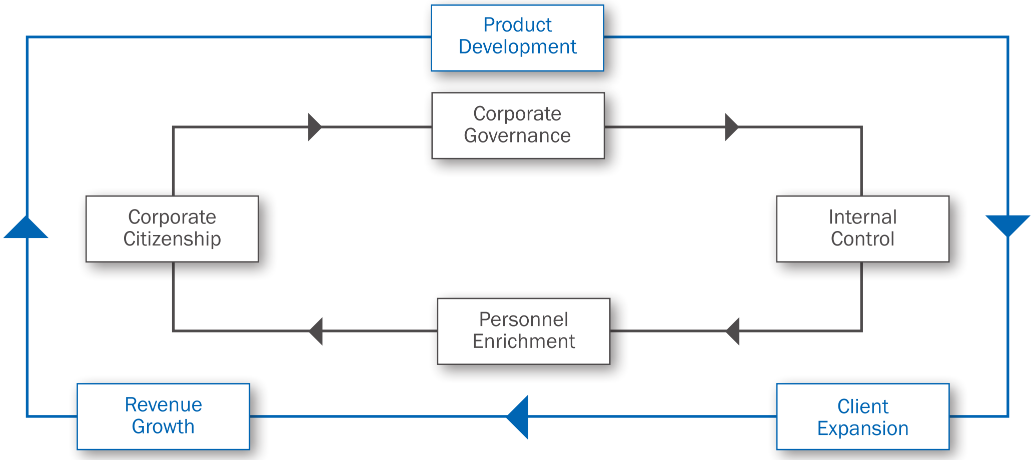
VISION AND MISSION

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.



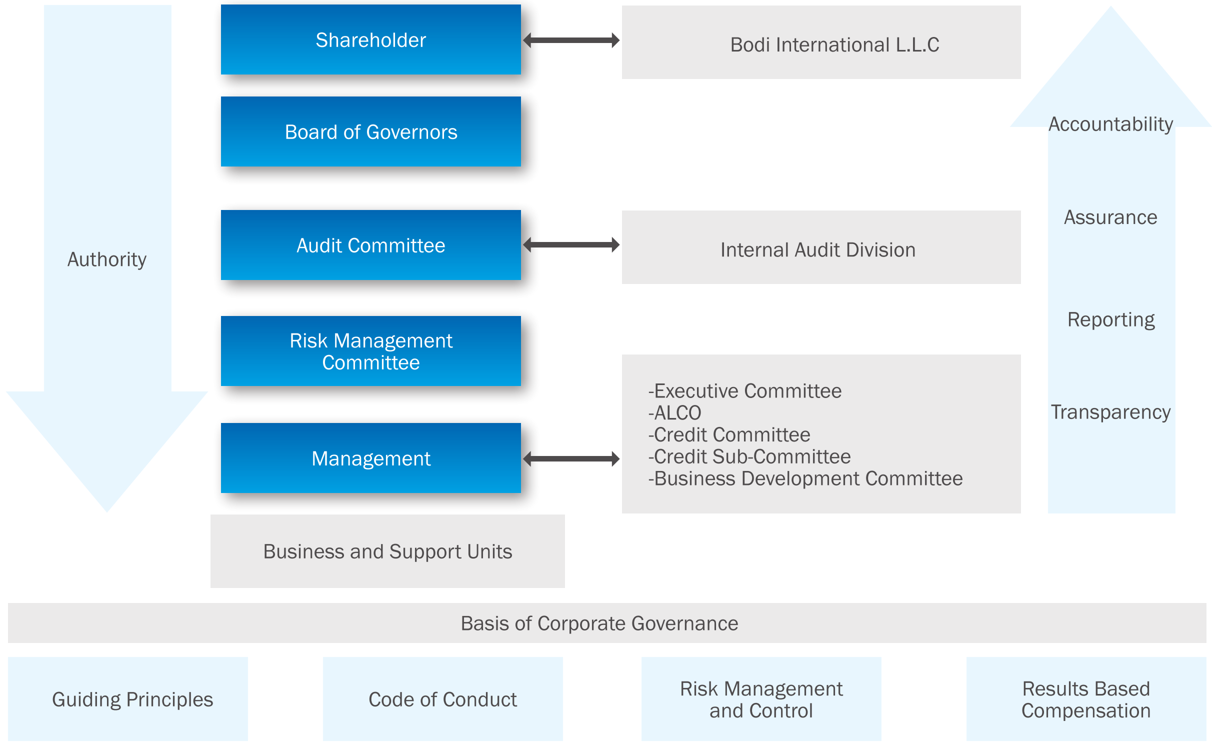
CORPORATE GOVERNANCE

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

Within this framework, the Board of Governors has approved the Bank's Corporate Governance Policy Statements including all the key guiding principles of best international corporate governance practice including our Code of Ethics.

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 bonus mechanisms; and transparency and openness across every aspect of our operations.

CORPORATE GOVERNANCE STRUCTURE



SHAREHOLDER

Golomt Bank is a Limited Liability Company with a sole shareholder, Bodi International L.L.C.

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, establishes sub-committees of the Board, appoints senior managers and the external auditors and determines the Bank's structure and organization, while conducting permanent oversight and providing all necessary support for the Bank's business and 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 methods, compliance and other control systems. The Committee exercises oversight and control over the Internal Audit Division of the Bank and liases closely with the External Auditors.

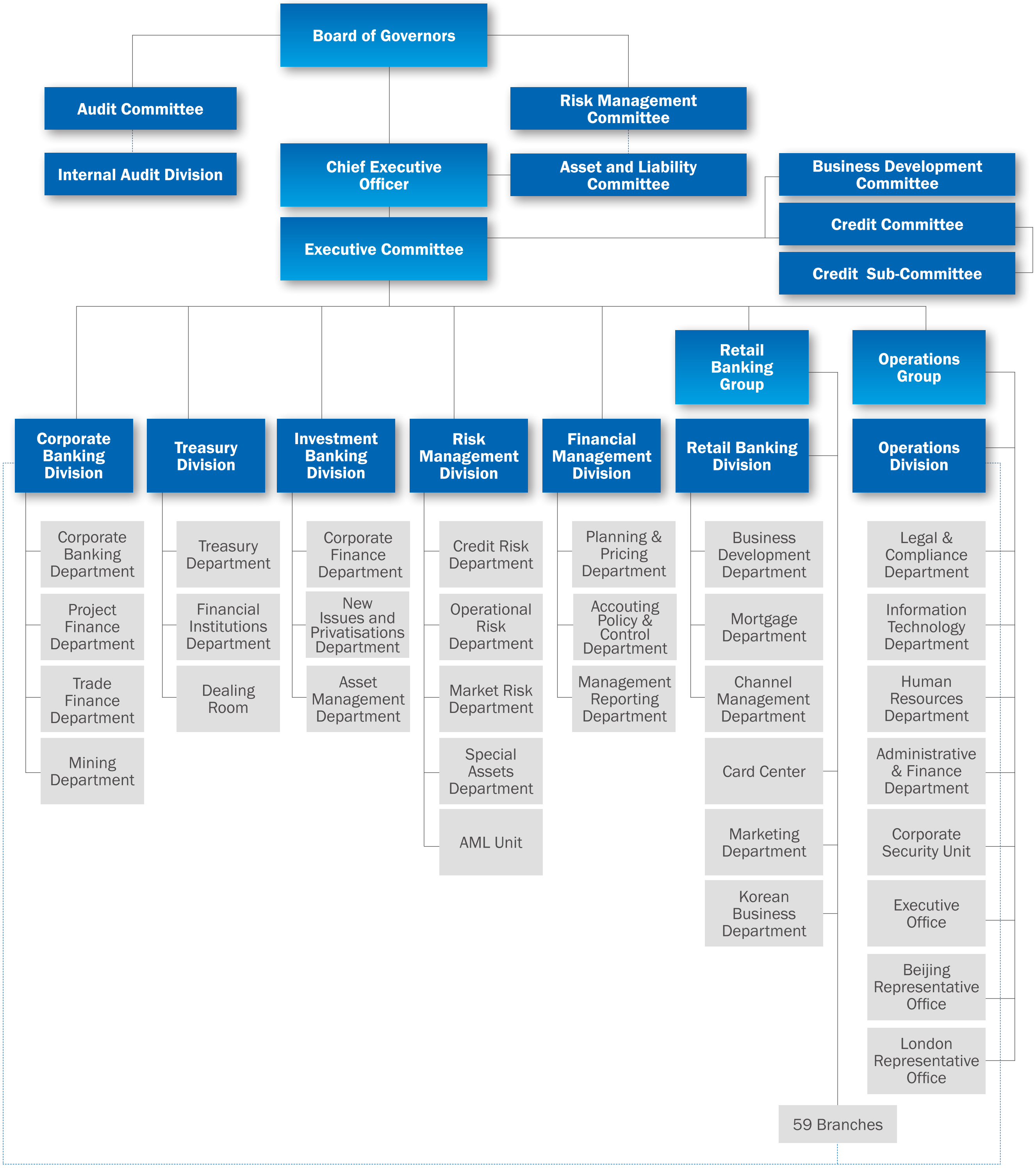
RISK MANAGEMENT COMMITTEE

The Risk Management Committee is appointed by the Board of Governors and also reports directly to the Board in order to review the Bank's overall risk exposures and to make appropriate recommendations upon the measurement , quantification, limitation and amelioration of risk.

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 who have served the Bank since 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.

ORGANIZATION STRUCTURE



MANAGEMENT TEAM

G. Ganbold
Executive Vice President &
Chief Operating Officer

G. Gankhuyag
Vice President & Director
Treasury Division

M. Chimegmunkh
Vice President & Director
Financial Management Division

N. Natsagdorj
Vice President & Director
Retail Banking Division

L. Oyun-Erdene
Vice President & Director
Corporate Banking Division

M. Chingun
Vice President & Director
Risk Management Division

B. Zagal
Vice President & Director
Investment Banking Division

J. Ganbat
Director Internal Audit Division

D. Munkhtur
Director Operations Division

Board of Governors	**D.Bayasgalan – Chairman** **L. Boldkhuyag** **M. Zorigt**	
Audit Committee	**B. Molomjamts – Chairman** **S. Shinejargal - C.P.A** **B. Tamir**	
Risk Management Commitee	**L. Boldkhuyag – Chairman** **M. Zorigt** **John P. Finigan** **M. Chimegmunkh** **M. Chingun**	
Senior Management	**John P. Finigan**	Chief Executive Officer
	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	VP & Director Risk Management Division
	B. Zagal	VP & Director Investment Banking Division
	J. Ganbat	Director Internal Audit Division
	D. Munkhtur	Director Operations Division
	N. Tserendavaa	Director Information Technology Department
	D. Batbileg	Director Card Center
	B. Enkhtuya	Director Marketing Department

HUMAN RESOURCES

The main factors underlying the bank's ongoing successful development are the skills, professionalism, dedication and productivity of all our employees. During the reporting year, the Bank's Human Resource policy focused on the development of our professional skills, employee productivity and training programs.

At the end of 2009, the Bank had 867 employees, of which 111 were newly employed during the course of the year. 60 per cent. of total employees are in front line delivery positions throughout our 59 branches. The other 40 per cent. are assigned to Head Office and support functions.

Human Resource Indicators

	2008	2009
Number of Employees	**874**	**867**
Branches	60%	60%
Head Office	40%	40%
Gender ratio (Male/Female)	**30-70**	**30-70**
Offices	24-76	23-77
Head Office	39-61	41-59
Middle management	45-55	45-55
Senior management	50-50	50-50
Professional Qualifications		
Bachelor's degree	78%	78%
Master's degree	10%	10%
Vocational/Technical School	12%	12%

Human Resource Indicators (continued)

	2008	2009
Age		
< 25	34%	25%
25-34	50%	56%
36-44	12%	14%
45-54	3%	4%
>54	1%	1%

The Bank places critical focus not merely upon expanding the total workforce but more importantly on a continuous program aimed at improving the knowledge, productivity, professional expertise and service capabilities of all employees, both long-standing and newly recruited.

During 2009 we successfully organized a series of advanced professional examinations among all employees, as a result of which career level assessments were developed to maximize the skill sets of all our valued employees and to match them with the most appropriate positions throughout the Bank.

During the year, 56 of our team members received best employee awards, granted by The Ministry of Finance, The Bank of Mongolia (our Central Bank), the Mongolian Youth Committee and Mayor of Ulaanbaatar City.

TRAINING AND DEVELOPMENT

Training programs embracing professional and managerial development as well as special technical expertise were organized continuously in our new advanced training and learning facility fully equipped with all the latest technology.

To further increase the skill levels of our employees we conducted professional training programs for Customer Relations Officers on five occasions, in which 88 employees participated. Similar focus and attention is directed to all our Loan Officers and Supervising Accountants during our ongoing training sessions.

With the goal of increasing the productivity and effectiveness of all our managers and senior officers, training programs were successfully updated with techniques tested and proven by leading institutions in the fields of leadership and social sciences. Cooperation with foreign and domestic institutions and sharing of professional expertise of overseas specialists proved to be a valuable learning experience for the Bank and its officers.

In total, the number of staff participating in training programs reached to 2,119 with a mean average training time of 36.4 hours per participant, which was 10 per cent. higher than that of the previous year. Throughout the year we placed a particular emphasis on ensuring that the benefits of our dedicated training programmes were enjoyed by all of our staff across the 11 Aimags (provinces) in which we are represented, through training secondments to Head Office and corresponding assignments of specialist trainers and skilled professional experts to all our Aimag branches.

Training Statistics

	2008	2009
Training hours per employee	28.9	36.4
Training participants	1,988	2,119

INFRASTRUCTURE

To improve our service quality, efficiency and cost effectiveness the Bank successfully implemented a new core operating platform, the GrapeBank system. It provides our customers with greatly enhanced "real-time" service enhancements throughout our branch network while greatly facilitating our internal processing, control, accounting, audit, management information and reporting capabilities.

Simultaneously we enhanced our capacity to secure and access customer information at the highest level and to offer faster and more efficient services embracing an expanded product range by upgrading the database servers which support the core banking system.

The Bank improved our client information security and the stability of the system by migrating and upgrading our payment card system to a cluster system and storage server. As part of our ongoing programme of improving technology and process, the Bank additionally installed 30 new Diebold ATMs, 98 Verifone GPRS POS terminals and 321 LAN and Dialup POS terminals.

The Bank continued to fulfill its pioneering role in introducing the most advanced technologies into the domestic banking sector by successfully implementing projects to acquire and issue China UnionPay cards and introducing dual currency cards. All of these initiatives reflect our ongoing dedication to securing greater utilization of internet and e-banking in a secure environment thereby reducing the wasteful and inefficient use of cash in routine commercial transactions.

The Bank focused on improving our e-services based on advanced technologies in order to offer a higher added value delivery channel to our clients in a speedy, secure and efficient format among which the most significant were:

- expanding SMS banking functions and introduced account notification services through SMS for the first time in Mongolia;
- strengthening our internet banking platform to more secure and reliable level with greatly increased customer functionality;
- expanding our e-banking services such as e-billing, charging prepaid usage of mobile phone and paying bills through SMS by cooperating with the mobile operators;
- introducing online air ticket issuance services in cooperation with Mongolian Airlines MIAT (our national flag-carrier) and online rail ticket issuance in cooperation with the Ulaanbaatar Railway, both for the first time in Mongolia.

The International Air Transport Association (IATA) appointed Golomt Bank as the clearing bank for BSP Mongolia (the national Billing and Settlement Plan) and the project was successfully implemented. This will improve financial control and cash flow for Billing and Settlement Airlines while customers will receive faster and more convenient services when purchasing airline tickets.

In order to reduce the incidence of actual and potential fraudulent card transactions through online payment systems on the internet, the Bank successfully implemented the preparatory phase for introducing Verified by Visa and MasterCard Secure code standards.

OPERATIONAL REVIEW

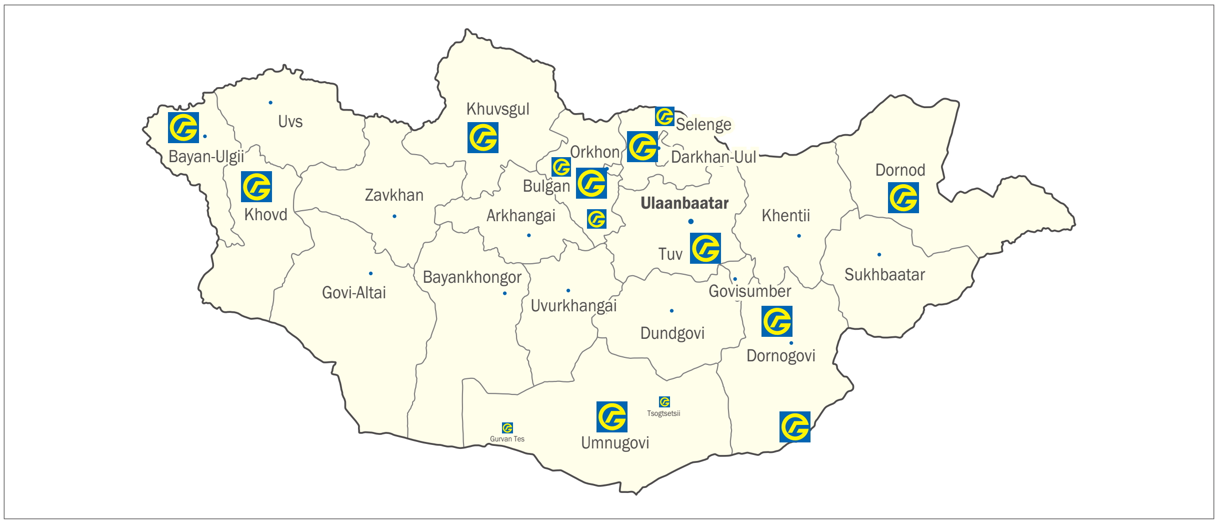
RETAIL BUSINESS

In order to overcome the economic turbulence of 2009, the Bank focused on strengthening the stability of our branch operations, especially on strengthening the rural branches' financial and operational stability rather than on expanding the network and increasing expenditure, unless substantial benefits could be secured in terms of increased customer satisfaction. We opened a new office at the Central Tower, located in the center of Ulaanbaatar where many leading companies are located. In addition, we opened offices within government departments to increase service efficiency by collecting public service fees and also opened new offices in Tsogttsetsii soum of Umnugobi (South Gobi) Province, the heart of Mongolia's future economic expansion. By the year end our network consisted of 37 offices in Ulaanbaatar and 22 offices in rural areas, supplemented by 90 ATMs.

The Bank established a dedicated South Korean Department led by a highly experienced Korean banker and relocated our "Moscow" branch in the Bayangol district of the capital city to a newly built state-of-the art six storey building.

To supplement our office network we expanded our delivery channels utilizing the most advanced technology to provide our products and range of services in the most efficient, convenient and cost effective fashion on a 24/7 x 365 days basis. Specific developments include:

- Doubling our ATM network in Ulaanbaatar and the rural areas while developing mutually beneficial relationships with affiliate member banks to expand the network to 90 ATMs;
- SMS banking service was expanded to embrace all mobile telephone providers with improved user friendly options, including our proprietary "Easy Info" account notification service;
- E-service range was expanded by introducing e-billing services to make payments through mobile phones and to buy prepaid cards by SMS;
- Improved Internet Banking functionality and security;
- Extending salary payment services through our card network for over 500 companies.



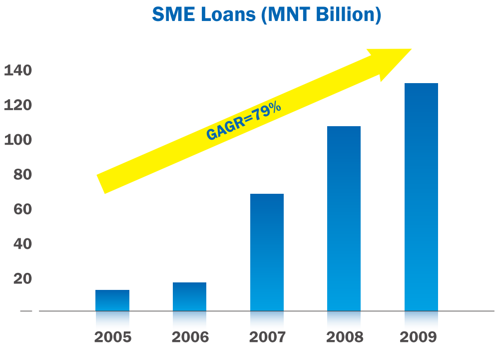
The Bank continued its dominance in the card sector processing, more than 60 per cent. of the total volume of card settlements in the Mongolian system, while our number of card holders exceeds 400,000.

In cooperation with The Bank of Mongolia and MasterCard Worldwide, the Bank organized an international conference “Future Trends of Payment Card System” to mark the 10th anniversary of Golomt Bank pioneering card settlements in Mongolia.

SME LOANS

Throughout 2009 the Bank successfully demonstrated its reliability and stability through continuously lending to our customers and businesses in the fulfilment our mission of assisting them to overcome the recession. We worked closely with their propriertors to help keep businesses functioning and preserve employment opportunities. In 2009, total SME loans reached MNT 132 billion, an increase of 22.2 per cent. over the year, with credit extension to retail and wholesale enterprises, mining sector suppliers and manufacturing companies predominating.

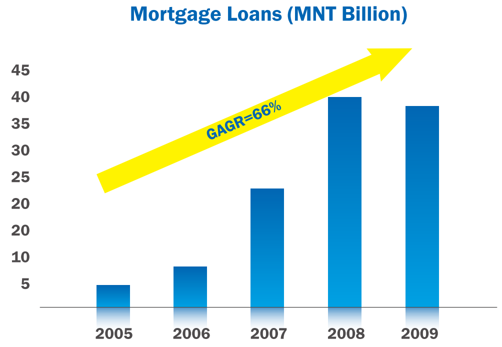
In addition to utilising its own financial sources to meet the ever-growing financing needs of our customers, the Bank collaborates closely with a number of leading domestic and international organizations including the Ministry of Finance, Capital Investment Development Fund, Asian Development Bank (ADB), the World Bank (IBRD), Japan International Cooperation Agency (JICA), Green Credit Guarantee Fund and Gesellschaft fur Technische Züsammenarbeit (GTZ) to provide long-term project loans with concessionary interest rates.



CONSUMER LOANS

The Bank continues to offer the widest possible suite of loan products to our valued customers as detailed on page 42 of this Annual Report , all of which are exclusively structured to best meet the specific needs and capacity of our valued borrowing clients. In order to assist the construction sector to overcome these funding difficulties, the Bank has initiated a number of well collaterised support programmes to complete the construction of these prime properties and to promote sales of completed apartments by working as a bridge linking potential purchasers and mortgagees with the property developers.

In addition to our continuous collaboration with the Mongolian Mortgage Corporation with a combined aim to develop Mongolia’s secondary capital market, the Bank has contributed to developing the first model of “Mortgage Loan Regulations” under the auspices of The Bank Mongolia. Furthermore, the Bank continues to participate actively in the Government sponsored “40,000 Household Apartments Programme”.

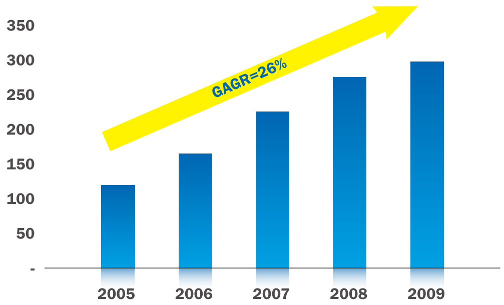


CORPORATE BUSINESS

Throughout this challenging year the Corporate Banking Division focused on enhancing its understanding of the underlying business metrics of its existing corporate customers during a period of unprecedented stress as well as expanding the number of our corporate clients and the range of services we provide to them. We believe that we played an important role in supporting and guiding our clients through those tough market conditions to successfully accomplish their business goals and preserve their viability with our focused banking services specifically tailored to their needs.

For considerable periods of the year Golomt Bank was the only bank to continue its lending operations on an uninterrupted basis thereby supporting the ongoing operations of all our valued clients and further underlining our reputation as a reliable counterparty, in both good and challenging times as we maintained our robust financial ratios and high levels of liquidity.

Corporate Loans (MNT Billion)



Throughout 2009, we supported many of the businesses that contribute to the Mongolian economy by delivering solutions specifically tailored to their needs. We offer a wide range of banking products and services such as term loans, flexible working capital lines, trade finance, project finance and syndicated loans as well as the full range of letter of credit and guarantee facilities.

We are gratified that the number of our corporate customers increased dramatically in 2009 generating robust growth in total deposits and loans through delivering optimum services to Mongolia's largest companies, both domestic and international in manufacturing, export and import, minerals, education, medical, infrastructure, energy and communications sectors as well as to the leading government organizations and departments.

PROJECT FINANCE

Our Project Finance Department aims to provide the full range of bank financing services to meet the distinctive needs of both international and domestically active project sponsors in Mongolia. We support local entrepreneurship and investments through medium to long-term financing in tandem with international organisations in Mongolia.

In collaboration with domestic and international donor organizations as well as the Government, we have developed the following suite of project finance options to support the business development and expansion objectives of our local entrepreneurs and manufacturing businesses. Over the medium to long-term we have witnessed satisfying outcomes as a result of focused attention and specifically tailored financial solutions:

- "Two-Step-Loan Project for Small and Medium-Scaled Entreprises Development and Environmental Protection" funded by Japan Bank of International Cooperation;
- Private Sector Development Credit Project supported by the International Development Association, an affiliate of the World Bank;
- SME Development in the Food and Agriculture Sector project in co-operation with the Government and its Investment Development Fund to provide loans at concessionary interest rates for expansion of the agricultural sector;
- Green Credit Guarantee Fund, financed by the Government of the Netherlands in collaboration with the Mongolian National Chamber of Commerce and Industry to promote clean production and energy efficiency companies and support their activities through concessionary interest rates;
- SME Development Project funded by the Ministry of Food and Agriculture and SME Fund;
- Loan Guarantee Fund in collaboration with Gesellschaft fur Technische Züsammenarbeit (GTZ), the German development agency, and its regional development programme;
- 'Employment Generation' project loans in collaboration with Asian Development Bank.

Besides collaborating with international project implementing organizations, we successfully organized seminars and training sessions in close collaboration with Japan International Cooperation Agency (JICA), the World Bank, the Ministry of Environment and Tourism and the Clean Development Mechanism (CDM) Designated National Authority and provided advisory services to project sponsors as part of our extensive banking services.

In addition, we initiated banking services with the aim of reducing greenhouse emissions as part of Clean Development Mechanism project development and signed a Memorandum of Understanding with the Kreditanstalt fur Wiederaufbau Carbon Fund of Germany.

BANKING SERVICES TO THE MINING SECTOR

Our Mining Department is staffed by professionals with extensive industry expertise coupled with the financial skills required to provide banking services tailored to meet the specific requirements of this critically important sector for Mongolia's development.

They offer unique banking products and services such as mineral resource loans, plus machinery and capital equipment backed leasing and loan finance to over 50 mining companies actively throughout the country.

Our Mining Department actively participated in the growth of Mongolia's mining sector through implementing the Government funded loan programme to expand the output of gold extraction and production. It provides banking services that meet the highest international standards for both mining companies and their many collaborators along the supply chain and works closely with our Investment Banking Division to produce comprehensive research on the Mongolian mining sector for our valued customers and potential investors.

INVESTMENT BANKING

As the Mongolian economy assumes a role of growing importance within the international investment and financial community, Golomt Bank is expanding its role in international capital formation and mobilisation through the establishment of a dedicated Investment Banking Division.

The Investment Banking Division is focused on the provision of research and advisory services while raising foreign capital and directing foreign investment into sectors that are vital for Mongolia's rapid development; supporting the Government's privatisation programme through efficient execution; developing syndicated loan markets; contributing to the asset backed securities market; and long term and short term equity financing as well as expanding prudently into asset management for high net individuals, corporate entities and pension funds and insurers.

The Bank organized an international seminar "Raising Capital- New Opportunities" together with BNY Mellon, the world's leading custodian bank and one of the largest asset management and in conjunction with the London Stock Exchange.

TRADE FINANCE AND INTERNATIONAL PAYMENTS

Our Trade Finance Department offers a complete range of advanced trade financing products and provides international payments and settlement services for all our customers.

We help our customers comprehend the benefits of conducting their foreign trade transactions through the Bank by protecting themselves from all types of risks and increasing their cash flow while benefiting from our advisory services. In 2009, we achieved a 115 per cent. increase in the total amount of export letters of credit received and processed on behalf of our clients as compared to the prior year.

During the year we enhanced our service efficiency following the introduction of the GRAFT trade finance programme within the GrapeBank operating platform. This has internally improved the speed and efficiency of the trade finance processes, strengthening both accounting procedures and control as well as reducing transaction time for our valued clients.

TREASURY

TREASURY AND LIQUIDITY MANAGEMENT ACTIVITIES

In the first half of 2009, against a background of continuing economic uncertainly and sclerotic systemic depository growth, the Bank's asset and liability policy was particularly prudent and defensive. Throughout this period the Bank's focus was on further strengthening its liquidity position and continuing to hold the highest level of reserves in the domestic banking system.

In the second half of the year, as global and domestic economic conditions improved, we adopted a more expansive business development policy combining increased market share in both deposit and loan services while maintaining our traditional conservative credit policies and increasing our market share.

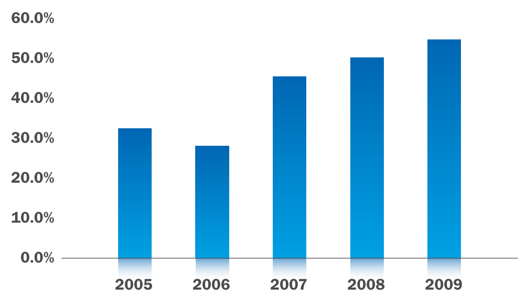
Our holdings of Central Bank bills increased by 180 per cent. representing 35 per cent. of the total Bank of Mongolia bills issued by The Bank of Mongolia during 2009. In the second half of the year, activity in the interbank market gradually revived and the Bank remains the dominant force as the primary lender in this market.

FOREIGN ASSETS AND TRADING ACTIVITIES

As of the end of 2009, total foreign assets of all Mongolia's 15 commercial banks aggregated MNT 405.1 billion, of which MNT 218.1 billion or 53.8 per cent. was attributable to Golomt Bank.

Notwithstanding the volatility of the Tugrug in the early months of the year, the Bank remained the dominant force in the foreign exchange market with total two-way turnover of MNT/USD in excess of USD 1.4 billion, which constituted 40 per cent. of the total systemic turnover of USD 3.5 billion.

Golomt Bank
Market Share of Banking System Foreign Assets



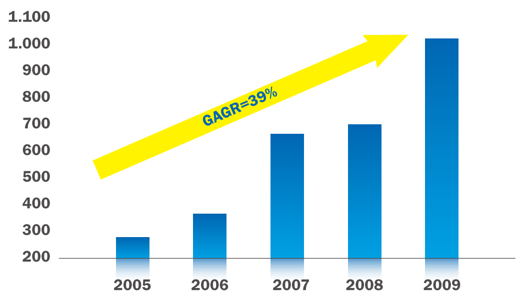
FINANCIAL REVIEW

During 2009, despite the challenging background of a deep economic crisis, the Bank made considerable progress in line with our strategic and financial plans most notable of which was that for the first time, total assets exceeded the critical MNT 1 trillion level.

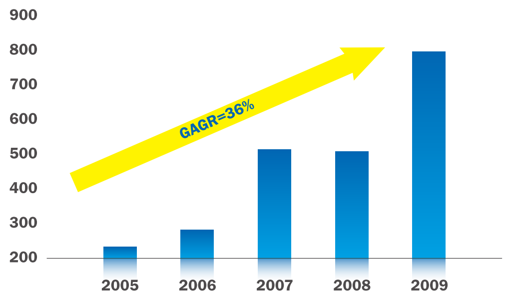
At year end of 2009, total assets stood at MNT 1,013 billion reflecting an increase of MNT 315.9 billion (45.3 per cent.) compared with MNT 697.2 billion in 2008, more than doubling the systematic growth rate of 21 per cent..

Balance sheet ratios and percentages proved to be equally robust with the advances/deposits ratio reaching 63.5 per cent. and remaining significantly below the systemic average of 82 per cent..

Total Assets (MNT Billion)

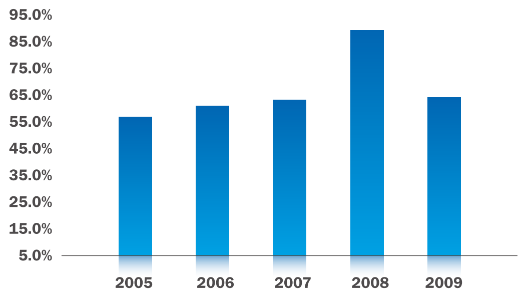


Total Deposits (MNT Billion)

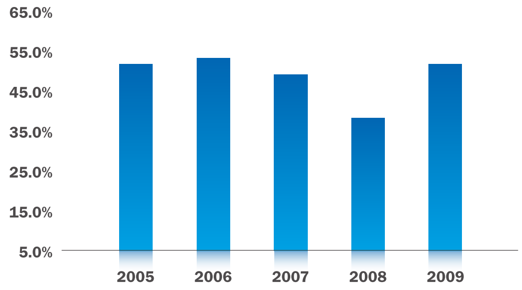


The Bank maintained its conservative liquidity and funding profile throughout the year. Overall, we remained a net provider of liquidity to the market. At the end of 2009, our liquidity ratio stood at 51.7 per cent. which was materially higher than the level of 37 per cent. in 2008.

Net Loans/Deposits (%)

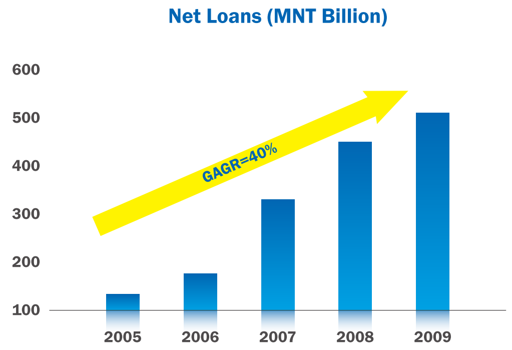


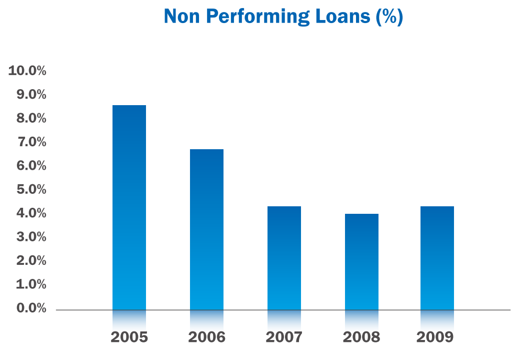
Liquidity (%)



Customer deposits increased to MNT 795 billion (USD 551.2 million), up by MNT 290.1 billion (57.4 per cent.) which was double the systematic average growth rate of 29 per cent..

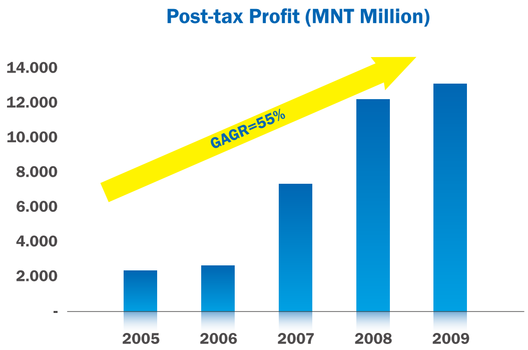
Notwithstanding the very challenging external economic environment, the non-performing loan (NPL) ratio remained at 4.4 per cent. the same level as in 2007. This generally favorable outcome against such a difficult exogenous environment was attributable to the effectiveness of our credit risk management policies, sustained improvements in remedial management and improved loan collection policies and practices.

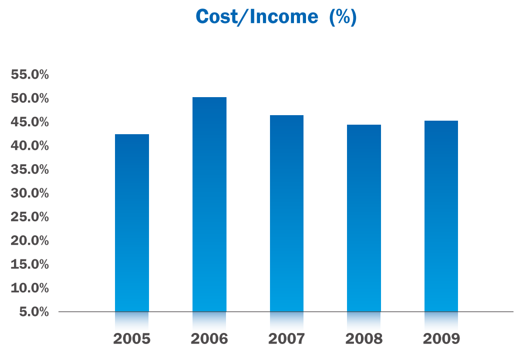




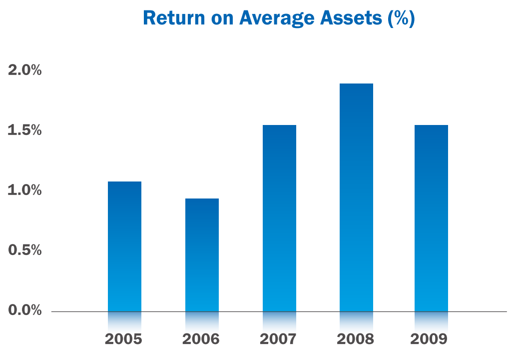
Net profit rose by MNT 968 million (7.9 per cent.) to MNT 13,170 million, compared with the net profit of MNT 12,201 million achieved in 2008. The increase was driven by the beneficial combination of diversification of income sources, volume growth and effective cost management strategies.

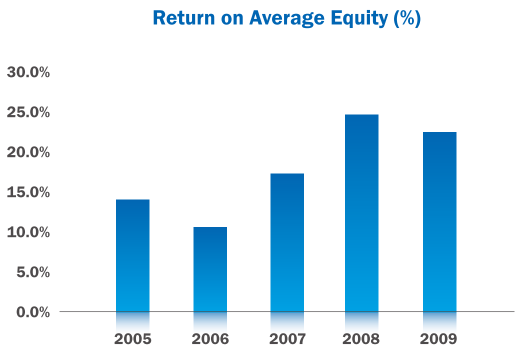
The key measure of operating efficiency, the cost/income ratio, was relatively stable at 44.9 per cent. in 2009 (compared to 43.8 per cent. in 2008), while post tax profit per employee rose by 9 per cent. reaching MNT 15.2 million.



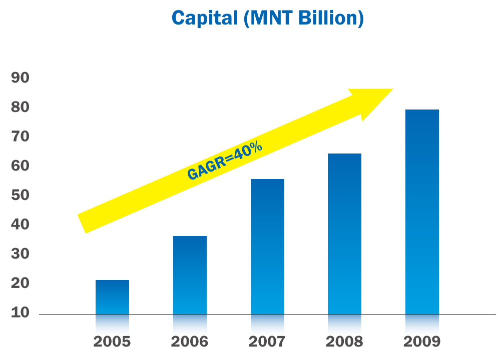


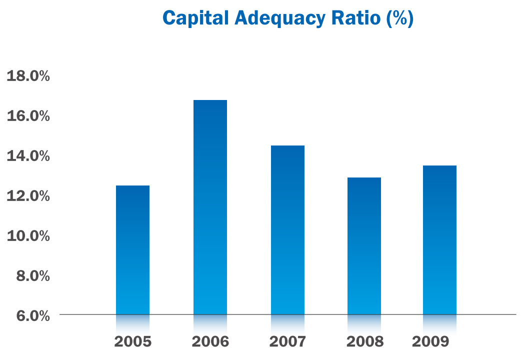
Total operating income increased by MNT 2,599 million reaching MNT 37,260 million while operating expense increased by only MNT 1,534 million reaching MNT 16,712 million. Return on average assets was 1.6 per cent. and return on average equity was 22.5 per cent..





Total Shareholder's equity as at 31st December 2009 reached MNT 78.5 billion. The Bank's risk weighed capital adequacy ratio stood at 13.4 per cent., up from 12.8 per cent. in 2008 and comfortably in excess of the 12 per cent. minimum level set by The Bank of Mongolia, and the 8 per cent. minimum stipulated in the Basel capital adequacy accord.





FIVE YEAR FINANCIAL RESULTS

	2005	2006	2007	2008	2009
Balance Sheet Indicators (MNT million)					
Total Assets	273,253	353,161	652,051	697,179	1,013,109
Deposits	232,838	283,707	512,485	505,171	795,251
Net Loans	131,817	174,700	323,026	447,787	505,299
Capital	20,275	35,794	54,871	63,548	78,471
Profitability Indicators (MNT million)					
Interest Income	19,632	26,955	44,564	69,318	81,832
Interest Expense	(13,284)	(18,283)	(30,228)	(43,569)	(57,905)
Net Interest Income	6,348	8,672	14,336	25,749	23,927
Non Interest Income (net)	4,249	3,698	7,231	8,912	13,333
Operating Expense	(4,450)	(6,179)	(10,078)	(15,178)	(16,712)
Credit and Receivables Loss Expense	(2,708)	(2,563)	(2,299)	(3,958)	(3,240)
Taxation	(1,057)	(1,109)	(1,811)	(3,324)	(4,138)
Post -Tax Profit	2,381	2,520	7,378	12,201	13,170
Financial Structure Ratios					
Deposits/Total Assets	85.2%	80.3%	78.6%	72.5%	78.5%
Equity/Total Assets	7.4%	8.9%	5.9%	7.3%	6.3%
Net Loans/Total Assets	48.2%	49.5%	49.5%	64.2%	49.9%
Net Loans/Deposits	56.6%	61.6%	63.0%	88.6%	63.5%
Non Performing Loans to Total Loans	8.6%	6.7%	4.2%	3.9%	4.4%
Gearing ratio (Times)	12.5	8.9	10.9	10.0	11.9
Profitability Ratios					
Return on Average Assets (%)	1.1%	0.8%	1.6%	1.8%	1.6%
Return on Average Equity (%)	14.4%	10.7%	17.3%	24.3%	22.5%
Net Interest Margin (%)	3.8%	4.0%	4.1%	4.2%	4.1%
Cost Income Ratio (%)	42.0%	50.0%	46.7%	43.8%	44.9%
Prudential Ratios					
Capital Adequacy Ratio >12%	12.3%	16.7%	14.4%	12.8%	13.4%
Foreign Currency Exposure Ratios:					
Total Currency <+/-40%	32.4%	39.7%	8.1%	11.9%	11.8%
Single Currency <+/-15%	14.8%	14.3%	5.8%	9.5%	10.0%
Single Borrower Exposure/Capital funds <20%	18.3%	18.3%	17.5%	19.5%	19.9%
Related Party Exposure <5%	0.1%	1.7%	2.7%	3.7%	3.5%
Liquidity Ratio >18%	51.7%	53.2%	49.3%	37.0%	51.7%
Fixed Assets Ratio <8%	1.2%	1.1%	1.0%	1.0%	0.7%

RISK MANAGEMENT AND CONTROL

The conduct of prudent Banking operations involves a high quotient of risk compared to most other commercial operations as clearly demonstrated throughout 2009. In very few other industries is the identification, mitigation, and elimination of risk quite so critical to underlying viability and long-term commercial success. Our Risk Management Division plays a critical role in identifying, mitigating, and eliminating every element of risk entailed in the Bank's business and operational mix. The Division took urgent steps to strengthen its controls and processes as a response to the progressively deteriorating business environment in coordination with the Retail and Corporate Banking Divisions throughout much of 2009. Consequently, it successfully addressed the growing challenges devolving upon borrowers and ensured timely adherence to the Bank's loan amortization schedules.

All Divisions collaborated to provide financial support, counseling, and training programmes where deemed necessary or valuable for our clients, and that in turn helped the Bank maximize its financial discipline and strengthen our relationship with our clients.

CREDIT RISK

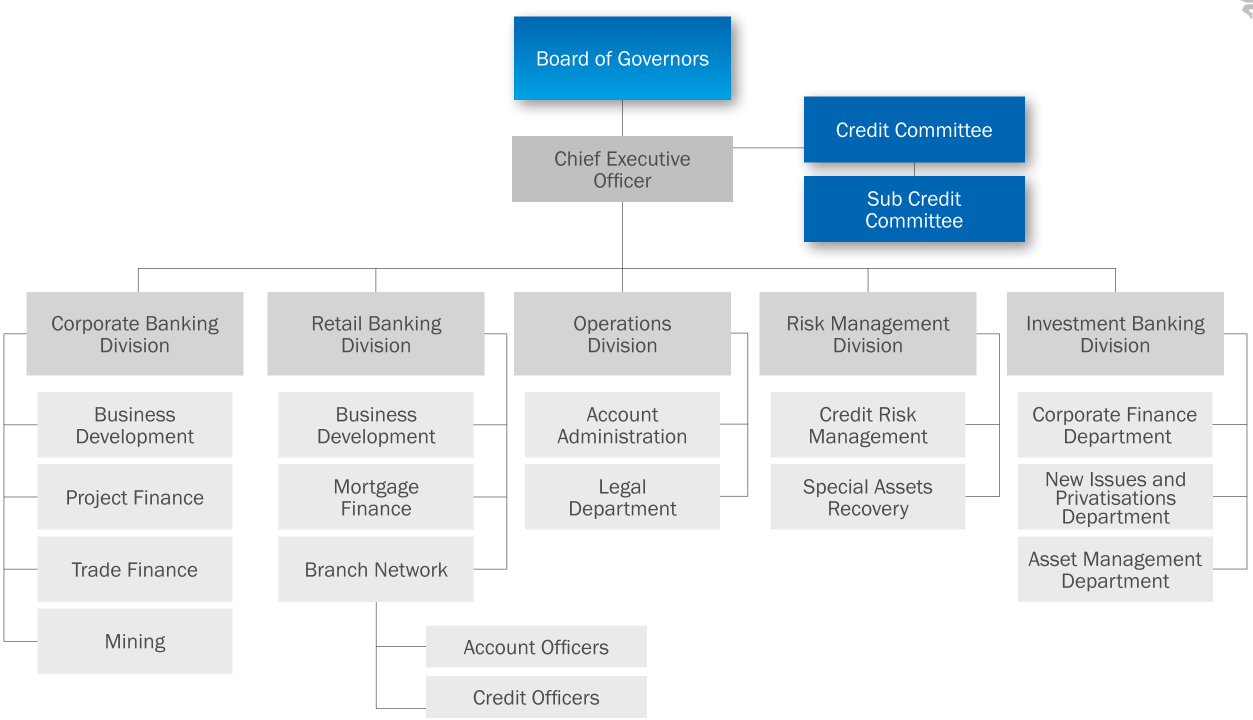
The Bank's credit strategy and policy/procedure comply with the Principles for the Management of Credit Risk published by the Basle Committee in September 2000. These provide guidance for the sound management of credit risk through 16 principles which exemplify best practice for the banking industry.

Our credit policy is designed to create a system that mitigates to the greatest practicable extent the elements of risks borne by the Bank through our credit intermediation activities and which proves mutually beneficial for both the Bank and its clients. The policy is predicated upon the sound assumption that the national economy will grow stronger in the near future, and thus, allow for a prudent but significant expansion of the current loan portfolio.

The Board of Governors, Risk Management Committee and senior management are responsible for approving and reviewing the credit strategy and policies periodically. The strategy reflects the Bank's lending business strategies and market dynamics in addition to continuously expanding lines of business.

The Risk Management Committee is also in charge of setting primary ratios and defining balance sheet related factors such as maximum leverage, minimum regulatory capital, and assets–to–deposits ratios. Credit risk is managed through a governance structure with clearly defined mandates and delegated authorities.

The Bank only extends credit facilities denominated in foreign currencies to those companies which have a stable and secure income stream denominated in the same currency.



The Bank has developed an internal credit rating system in order to assess impartially and correctly the repayment capacities of organizations and individuals for business loans disbursement purposes. The system takes into account three broadly defined factors, namely, the impact of the economic cycle upon the particular industry, underlying business prospects, and the specific financial status of the borrowing entity then assigns a number ranging from 1 to 9 that corresponds directly to the international ratings, AAA, AA, A, BAA, BA, B, CAA, CA, and C. The system embraces the probability of both timely and complete repayment of credits.

In 2009 the Bank's loan quality remained effectively constant, in comparison to 2008, partially thanks to its tightened risk limits, requirements, and a conservative strategy which required holding sufficient loan loss reserves underpinned by high stable commodity materials prices in parallel with increasing export volumes from May 2009 onwards; where export volumes, in particular to China, increased significantly, led to an improved business environment and consumer confidence.

LENDING PROCESS

The relationship manager responsible for the target corporate customer prepares detailed financial and a technical analysis of the proposal in order to have an in depth knowledge of the intrinsic business and financial strengths of the customer and the industrial sector in which the client operates.

The relationship manager completes the (business financial and technical analysis) and submits it to the Head of the Corporate Banking Division for a recommendation and transmission to the Risk Management Division. All business loans over MNT 50 million or equivalent in USD terms are assessed and reviewed by the Risk Management Division prior to consideration and evaluation by the Credit Committee.

Risk Management Division receives the proposal from Corporate Banking Division and adopts the following process:
1) Logs the proposal into their Credit Data Base as "Credit awaiting approval";
2) Conducts an independent analysis of the proposal;
3) Reviews all implications of the Bank making the loan predicated upon such macro issues as:

- Sector limits established for various industries and Bank products;
- Single borrower and group limits;
- Pricing;
- Maturity profile of the portfolio;
- Composition of the loan portfolio.

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

Credit requests are prepared by experienced credit marketing officers based on the 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, either from 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:

- Branch credit committee: up to MNT 30 million (equivalent to USD 20,000);
- Sub-Credit Committee: up to MNT 200 million (equivalent to USD 138,000);
- Credit Committee: facilities above MNT 200 million.

RISK RATING PROCESS

The Bank's risk rating methodology incorporates both quantitative and qualitative factors in determining the appropriate level of customer credit risk and includes the following steps:

- Character: credit history;
- Market position: market share, reputation;
- Management;
    - Efficiency – Profitability: margin, ROA;
    - Marketing – Sales growth;
    - Production management – Turnover of total assets, account receivables, and raw materials;
- Financial position: liquidity ratio, liabilities to total assets;
- Industrial sustainability: opportunities and threats;
    - Consumer behaviour;
    - Competitors;
    - Barriers: Government restrictions, Start-up investments, economies of scale.

The risk-rating matrix utilizes a ten-point rating scale with "10" representing the highest risk and "1" representing the lowest risk. Each credit quality rating level signifies the relative likelihood that the customer might be able to fulfil its contractual obligations over the given time horizon. The tenor and limit structure of customer exposures are progressively reduced as any element of the qualitative assessment of either the customer or the proposal declines.

Risk Management Division conducts an ongoing review of the whole credit portfolio. That includes "Watch List" methods and classified portfolio reviews, which are conducted on a monthly basis. The review process embraces an overview of portfolios segmented by risk rating and industry risk.

The regular review also requires the participation of relationship managers who are responsible for presenting their account relationships. Related departmental and product managers also participate together with senior risk management officers in this process.

Risk Management Division prepares an overall closing review report for both Risk Management Committee and management commenting on the composition and balance of the portfolio in terms of credit quality, and risk/return balance and highlights issues arising from the review.

LOAN COLLECTION PROCESS

Collection responsibility lies with relationship managers. Collection is aggressively pursued, and all documentary evidence of collection activity both in written and verbal forms, is maintained for all customers.

Customers are contacted for payment within five days from the scheduled due date or depending on amounts and customer history such contacts can be made prior to the due date. The manner and frequency of contact are determined by the amount of principal and interest payment delinquent, with greater efforts being directed at the larger outstanding balance accounts and towards customers with a slow payment history. While the judgment by the Corporate and Retail Divisions can be used in establishing the priority and frequency of collection contacts, the first contact for all accounts past due is normally made via telephone. Follow up collection efforts are then, determined based on the results of the initial contact. All customer contacts in written and verbal form are conducted in a professional, courteous and ethical manner.

The following is a summary of our loan collection process:

- All customers receive a monthly Statement of Account, which identifies all outstanding balances with past due balances specifically highlighted. Selected accounts, identified by the Relationship Manager and independently monitored by the Risk Management Division, are entered into the "chase letter" program within the automated loan module to ensure that regular contact is maintained with all past due and delinquent customers;
- In respect of customers having balances in excess of 30 days overdue, relationship managers conduct an assessment of the customer's credit worthiness, and give recommendations on business management such as accounts receivable policy, marketing strategy, sales growth, pricing policy and increases in raw material and goods turnover in order to strengthen the customer's current and future cash flows;
- After all reasonable efforts have been made to collect debts past 90 days from due date, delinquent accounts are passed to Risk Management Division, Legal and Work Out Department for further appropriate action;
- Any disputed item, claim, or payment deficiency identified by the Corporate and Retail Division is noted and forwarded to the Legal and Work Out Department for resolution. The Department has to resolve the dispute within 30 days or direct the appropriate collection personnel to commence recovery efforts.

PROBLEM CREDIT MANAGEMENT

The Bank engages approriately qualified professional specialists experienced in successful remedial account management and recovery processes. First, special asset managers analyze the situation impacting borrowers and their assets and cash flows.

After the initial analysis, managers choose appropriate ways to secure payments in the shortest possible timeframe. Collection efforts are determined based on the results of previous contacts and customer's character, how he or she is willing to pay back. Collection managers may choose to go to court to secure a judgment which is then transfered to a court enforcement agency or (bailiff). Legal action conventionally takes 6 to 12 months. Before applying to court for the auction of collateral the Bank must make an informed assessment based on expert advice as to the realisable value of collateral through such a judicially enforced auction process.

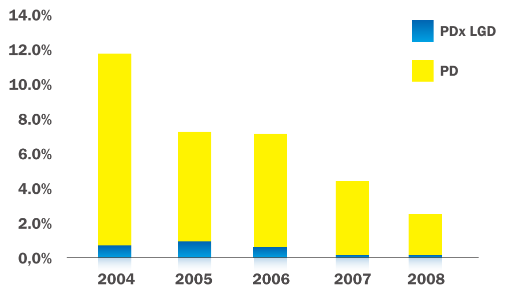
CREDIT RISK MODELLING AND PORTFOLIO QUALITY

The Bank utilizes proprietary methodology designed to meet both IAS 39 and Basel Credit Risk Modelling requirements to estimate credit risk components and the probabilities of default (PD) and loss given default (LGD). The proprietary methodology facilitates the control of credit risk exposures through objective reappraisals of limit bands, concentration factors and other applicable parameters and has proved its efficiency in measuring expected credit defaults and losses over time, which is confirmed by the Bank's external auditor, Ernst & Young, who validate the methodology`s accuracy each year.

The non performing loan (NPL) classification includes loans overdue for or more days plus loans assessed as impaired where all loans assessed as impaired must be in accordance with IFRS 7; IFRS 7 requires that a loan`s carrying value be greater than the estimated future cash flows discounted at an effective interest rate, which implies that for the assessment of loans the intrinsic financial strengths and weaknesses of the individual borrower and external environmental factors must be taken into account.

The Probability of Default fell progressively from 11.7 per cent. to 2.6 per cent. in parallel with the declining Loss Given Default from 6.5 per cent. to 3.4 per cent. in 2008.

Risk Modeling



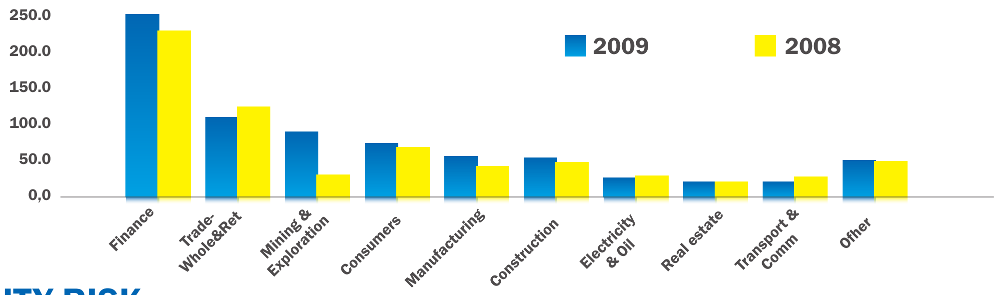
INDUSTRY ANALYSES AND CONCENTRATION

The Bank applies concentration limits to loan portfolios to maintain credit quality at a pre-determined level. To that end, the Bank keeps its aggregate loans to any single business sector of the economy, at maximum to 30 per cent. of the total loan portfolio and augments that constraint farther by other limits such as single borrower limit, connected borrowing group limit, and rating and country limits.

The Bank's loan concentration is reflective of the small highly concentrated and less diversified evolving structure of the current economy even though it reviews all industrial sectors on a regular basis in order to diversify its portfolio to the greatest possible extent. As of the end of 2009, the Bank's major credit risk component resides in the trade sector, which accounts for 22 per cent. of the total loan, amounting to MNT 114 billion and well under the 30 per cent. constraint, while the second major credit risk component locates in the mining and exploration sector, which accounts for 17.6 per cent. of the total loan, amounting to MNT 91 billion. The remaining credit risk exposure is by and large evenly disbursed among other sectors, which can be observed in the graph.

At the end of 2009, the Bank's gross exposure to fluctuations in economic activity was estimated to be MNT 956 billion or USD 663 million, which is an increase of 45.5 per cent. compared to that of 2008.

Risk Concentration of the maximum exposure to credit risk (MNT Billon)



LIQUIDITY RISK

Liquidity risk is the risk that the Bank might be unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

The Bank's liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that payment obligations can be met under both normal and stressed conditions. The ALCO sets liquidity risk standards in accordance with regulatory requirements and international best practices, which in turn ensures that a comprehensive governance framework for liquidity risk management is followed throughout the Bank. Limits and guidelines prudently set by the ALCO reflect the Bank's conservative appetite for liquidity risk, and the ALCO is in full charge of ensuring compliance with liquidity risk standards and policies.

In terms of the Bank's centralized approach to the management of liquidity and funding, the ALCO is required to incorporate the following elements as part of a cohesive liquidity management process:

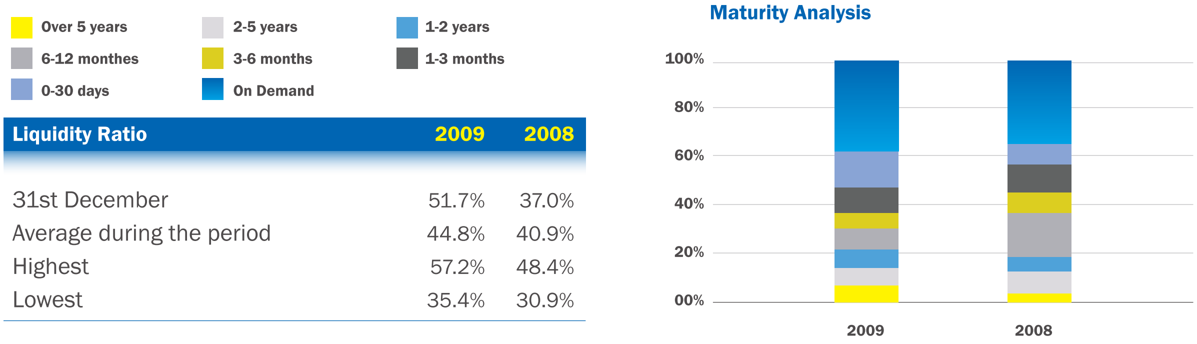
- Short and long term cash flow management;
- Maintaining a structurally sound balance sheet;
- Foreign currency liquidity management;
- Preserving a diversified funding base;
- Undertaking regular liquidity stress testing;
- Maintaining adequate liquidity contingency plans.

The cumulative impact of the above elements is monitored by the ALCO at least twice each month and that process is underpinned by extensive internal and external control systems. The latter reflect the application of purpose built technology, documented policies and procedures, independent oversight by Risk Management Division, and regular independent reviews and evaluations of the effectiveness of the system.

The following table and bar chart show the Bank's liquidity ratio and an analysis of contractual maturities for the years, 2008 and 2009.

Liquidity Ratio	2009	2008
31st December	51.7%	37.0%
Average during the period	44.8%	40.9%
Highest	57.2%	48.4%
Lowest	35.4%	30.9%

Maturity Analysis



CASH FLOW MANAGEMENT

Active liquidity and fund management reflect an integrated commitment across a number of functional areas led by the Treasury Division. Short-term cash flow projections are used to plan for and meet the requirements of day-to-day operations and to ensure adherence to prudential limits and ALCO requirements.

Projected balance sheet structures, however, are used to derive the Bank's long term funding needs, which are regularly updated.

STRUCTURAL REQUIREMENTS

Maturity analysis represents the basis of an effective management of exposures to structural liquidity risk since expected cash flows vary significantly among contractual maturities. The Bank applies behavioural profiling to its assets, liabilities and off-balance-sheet commitments with various maturities or drawdown periods. The process is efficient in identifying significant additional sources of structural liquidity in the form of liquid assets and core deposits (such as current accounts and demand deposits even though they are legally and contractually repayable on demand or with a notice, exhibiting consistent stable behaviours). The Bank sets limits and guidelines to restrict the mismatch between expected inflows and outflows of funds in different time brackets and employs the active management of short-term funding ratios to ensure timely adherence to the limits and guidelines. The most commonly used ratios are listed below.

- Net Loans / Current Accounts & Deposits;
- The Bank of Mongolia Deposits + Cash / Current Accounts & Deposits;
- Assets up to One Month / Liabilities up to One Month;
- Funds from Banks & Financial Institutions / Current Accounts & Deposits;
- Deposits to Banks & Financial Institutions / Current Accounts & Deposits;
- Liquid Assets/ Current Accounts & Deposits + Funds from Banks & Financial Institutions ;
- Liquid Assets / Current Accounts & Deposits + Funds from Banks & Financial Institutions + Contingent Liabilities;
- Liquid Assets / Total Assets;
- Net Loans / Total Assets;
- Net Loans / Current Accounts & Deposits;
- Net Loans / Current Accounts & Deposits + Funds from Banks & Financial Institutions ;
- Term Deposits / Total Liabilities;
- Foreign Currency Assets / Total Assets;
- Funds due to Banks & Financial Institutions + Foreign Currency Deposits / Foreign Currency Current Accounts & Deposits;
- Net Foreign Currency Loans / Total Assets;
- Foreign Currency Liquid Assets / Foreign Currency Current Accounts & Deposits;
- Wholesale Current Accounts & Deposits / Current Accounts & Deposits;
- Government Current Accounts & Deposits / Current Accounts & Deposits;
- Other concentration analysis ratios.

FOREIGN CURRENCY LIQUIDITY MANAGEMENT

The Bank operates within a range of parameters monitoring changes either in market liquidity or in exchange rates and constrains the extension of its foreign currency loans within a sustainable funding base for each foreign currency. In addition it always ensures that borrowers have a matching currency income stream.

DIVERSIFIED FUNDING BASE

Concentration risk limits are used to ensure that funding diversification is maintained across sectors and wholesale deposits. Primary sources of funding are in the form of deposits across a spectrum of retail and wholesale clients, and long term senior and subordinated borrowings.

LIQUIDITY STRESS TESTING

Anticipated balance sheet cash flows are subjected to a variety of both Bank specific and systemic stress test scenarios in order to evaluate the impact of plausible events on the liquidity positions. The scenarios may be based on both historical and hypothetical events e.g., a specific crisis or a systemic crisis, and the results of these scenarios provide the Bank with vital inputs in defining its target liquidity risk positions.

LIQUIDITY CONTINGENCY PLANS

In anticipation of and in response to the growing economic uncertainty and volatility, the Bank continuously augments its long-standing contingency plans designed to protect the interests of the Bank's stakeholders and maintain market confidence, in order to ensure a positive outcome in the event that the Bank were to encounter a sustained liquidity crisis. The plans incorporate wide-ranging early warning indicators and clear and decisive crisis response strategies. The early warning indicators are monitored based on assigned frequencies and tolerance levels whereas the response strategy is formulated around the relevant crisis management structure. The response strategy addresses internal and external communications, liquidity generation and operations, and heightened supplementary information requirements in close liaison with the regulatory authorities.

MARKET RISK

Market risk is defined as the risk of enduring substantial losses resulting from adverse changes in risk factors such as interest rate, foreign exchange, equity prices, and general market volatility. The Bank is exposed to market risk because of its positions in trading and non-trading business portfolios and also its treasury operations.

The Risk Management Committee of the Board of Governors establishes the Risk Strategy Statement, an overall limit for market risk disaggregated into sector and instrument sub-limits. ALCO monitors market risk exposure within the parameters set by the Risk Management Committee through a constant review of interest and exchange rate exposures and predictions of current and future developments that could have a material impact upon the Bank's operations.

Treasury Division is charged with the day-to-day management of market risk. The Division monitors all elements of market risk, taking into account specifically determined limits for products, instruments, investment categories, hedging and counterparties augmented by the policies and control procedures approved by the Board of Governors. The Division reports directly to ALCO and the CEO.

INTEREST RATE RISK

The principal market risk arising from the Bank's non-trading activities is interest rate risk. Interest rate risk is defined as the risk to earnings or capital arising from movements of interest rates; from changing rate relationships among yield curves that affect Bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-rate-related options embedded in Bank products (option risk). The evaluation of interest rate risk considers the impact of complex, illiquid hedging strategies or products, and also the potential impact on income that is sensitive to changes in interest rates. The Bank faces interest rate risk exposure attributable to:

- assets and liabilities maturing or repricing at different times (for example, if assets reprice faster than liabilities and interest rates are generally falling, earnings will decline);
- assets and liabilities may reprice at the same time but by different amounts (for example, when the general level of interest rates is falling, the Bank may be constrained in reducing rates paid on demand deposit accounts by an amount that is less than the general decline in market interest rates);
- short-term and long-term market interest rates may change by different amounts (for example, the shape of the yield curve may affect new loan yields and funding costs differently);
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (for example, if long-term mortgage interest rates decline sharply, mortgagors may prepay earlier than anticipated, which could reduce envisaged income).

Interest rate risk is measured by analyzing the extent to which the re-pricing of assets and liabilities is mismatched creating an interest sensitivity gap. The following table shows the sensitivity of the Bank's Statement of Income resulting from feasible changes in interest rates based on the facilities and liabilities outstanding at the year end.

	Change in basis points	Sensitivity to Profit Before Tax
2009	+120	-4.06 %
2009	-120	4.06 %
2008	+120	-3.96 %
2008	-120	3.96 %

VALUE AT RISK

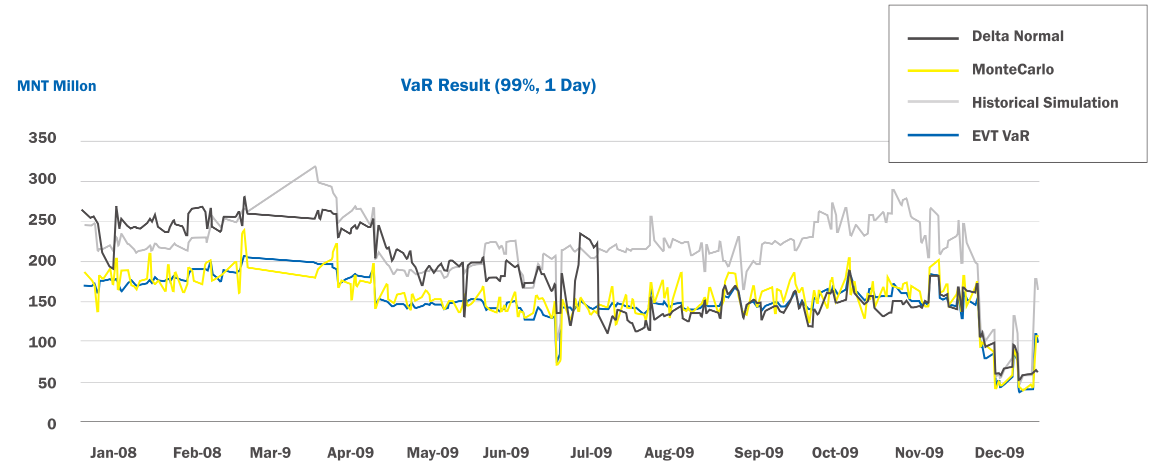
The primary components of risk in the Bank's modest sized trading book emanate from foreign exchange and derivative trading exposed to re-pricing and to changes in basis risk and market liquidity. The principal risk factors are interest rate, foreign exchange, and equity price.

The primary focus of the Bank's trading activities is client facilitation providing our clients with products at competitive prices. The Bank also undertakes market making activities – quoting firm bid (buy) and offer (sell) prices with the intention of profiting from the spread between the quotes; arbitrage – entering into offsetting positions in different but closely related markets in order to profit from market imperfections; and proprietary activity – taking positions in financial instruments as a principal in order to take advantage of anticipated movements in underlying market conditions.

All Divisions exposed to market risk are required to comply with the Bank's trading policy requirements. Of all these requirements, the most important is specifically determined limits included in the trading authorities as the cornerstone of market risk management.

The Bank applies three types of VAR (Value at Risk) methodology to measure the market risk within its trading and Treasury portfolios; VAR analysis produces estimates of potential negative changes in the market value of a portfolio over a specified time horizon within a given confidence level. The Bank uses time horizons of one and ten trading days where the ten-trading-day is in accordance with The Bank of Mongolia's prudential limit with a confidence level of 99 per cent. in the VAR application validating its output through a programme of daily back-testing that compares the actual profits and losses realised in trading activities to VAR estimates.

In addition to VAR methodology, the Bank benefits also from stress testing in identifying potential losses in excess of the VAR. The chart below represents the aggregated three types of VAR analysis with a holding period of one day and a confidence factor of 99 per cent.. The EVT VAR represents the result of such stress testing.



OPERATIONAL RISK

Operational risk is defined as the probability of enduring losses resulting from inadequate or defective internal process es and systems, human and technical failures, or external events.

The Bank has explicit definitions on the operating authorities delegated to the branch offices and strives continuously to enhance its internal control and oversight, while precluding unacceptable practices so as to effectively reduce operational risks through efforts in the following modes:

- enhancement of restrictive and control mechanisms on operating activities of branch offices;
- standardization of account opening processes and strengthening both collection and retention of confidential documents and information;
- improvements in the measures of evaluation of client ratings;
- full implementation and application of information management systems to intensify online monitoring and dynamic analysis of operational risk;
- enhancement of delegated authority and re-delegation practices;
- enhancement and update of qualification programs for employees;
- enhancement of information technology management policies and procedures;
- regular strengthening of our Business Continuity Plan.

The Bank enjoys the benefits of a comprehensive range of insurance policies aimed to ensure that the business continues to operate without impediment or interuption. Such insurance policies help to eliminate product risks and reduce the reconstruction cost of any failure in the Bank's ordinary operations due to overwhelming external events.

INFORMATION RISK MANAGEMENT

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure, or destruction of information resources impacting adversely upon confidentiality, integrity or availability. From a strategic perspective, information risk management is treated as a particular discipline of operational risk framework that not only protects the Bank's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises returns on investments, and finally supports service provision.

The Bank's approach to information risk management is in accordance with global best practice, applicable laws, and regulations, and its Operational Risk Management Department is responsible for the oversight of accounting control, user logs, servers and core banking application functions. The Operational Risk Management Department utilizes a number of risk programmes for customized to the Bank's specific requirements on daily monitoring.

BUSINESS CONTINUITY MANAGEMENT

The Bank recognizes the critical importance of having a business continuity plan in place to identifying any significant disruptions to its business stemming from unforeseen events and ensuring that risks are speedily and fully mitigated. Speedy restoration of services requires a significant level of advance planning and preparation.

The Bank has a business continuity plan in place designed to assist in managing serious disruptive crises in a disciplined manner, and Operational Risk Management Department is charged with ensuring that all Divisions are fully compliant with the plan.

The Operational Risk Management Department along with Disaster Recovery Team and Business Recovery Team monitor all issues threatening the Bank's business continuity.

FRAUD RISK MANAGEMENT

Fraud risk management is a vital component of operational risk management; which focuses on the risks associated with errors and omissions in transaction processing or other business operations while determining whether or not any errors or events could be a result of deliberate acts designed to benefit any perpetrator.

The Bank understands the likely negative consequences of fraud upon its business and profitability, thus pays all due attention to fraud risk management making it one of the core elements of its corporate governance.

The Bank works assiduously to prevent all types of fraudulent acts such as false accounting or theft. To that end, it has developed and implemented a comprehensive anti-fraud strategy that uses ethics and anti- collusion policies by applying comprehensive controls and procedures at all operational levels. Moreover, the Bank has assessed each area and process of its business and classified all perceivable potential fraud risks through identification of possible types of offences and potential perpetrators.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of failing to comply with applicable laws, regulations, or codes of conduct and standards of good practice, which may result in regulatory sanctions, financial or reputational losses. Outside the country-specific context, the Bank adopts best international practices and adheres to all applicable legislation and regulations in the development of its compliance framework. The framework includes the principles of effective compliance risk management issued by the Basel Committee on Banking Supervision and reflects a decentralized compliance risk management structure.

MONEY LAUNDERING CONTROL

Legislation pertaining to money laundering and terrorist financing control imposes significant record keeping and customer identification requirements on financial institutions as well as obligations to detect, prevent, and report them. The Bank continues to strengthen its commitment to combat money laundering and terrorist financing by improving its policies and control mechanisms in parallel with the more dynamic regulatory environment. The policies and internal controls include "Know Your Customer" monitoring, employee training, suspicious activity and regulatory reporting, and risk assessment. In more detail, the monitoring of customer accounts and suspicious activities is based on the identification of unusual and large amount cash and noncash transactions generated by the Bank's Suspicious Activity Monitoring System and internal procedures. The Bank reports suspicious activities and large transactions to the Financial Information Unit of The Bank of Mongolia on a weekly basis as required by legislation. As for employee training, the Bank's policy requires that all employees be trained on anti-money laundering and prevention of terrorist financing on at least an annual basis. To that end, the Bank provides all its new recruits with a comprehensive training program while maintaining regular training and knowledge updates in place for all existing staff. In addition, all employees in branches, front-line operational and internal control areas and Private Banking Division are provided with specialized supplementary training.

The Bank maintains very close collaboration with correspondent and counterparty banks to exchange all approprate information and to benefit from their best practices.

OPERATIONAL HEALTH AND SAFETY

The health and safety of its personnel, clients and other stakeholders has always been a paramount priority for the Bank. It strives to identify all risks and prevent potential accidents or injuries in advance and to eliminate the repeat of any accidents by constantly improving and ensuring compliance with its occupational health and safety procedures.

Throughout 2009, the Bank focused acutely upon ensuring total compliance with all aspects of current and pending legislation.

COMMUNITY SUPPORT

During 2009, the Bank continued its long-standing tradition of providing substantial financial and material support to community initiatives focusing upon the key areas of health, education, the environment, arts and culture, sports and social development and economic affairs. The Bank views such initiatives as creative opportunities to strenghthen the underlying business while simultaneously contributing to the welfare of society. Highlights of the Bank's role in support of the community were:

- Continued sponsorship of the State Academic Theatre of Opera and Ballet in order to develop the arts and contribute to the development of Opera and Ballet;
- Sponsoring for the 7th consecutive year our University Students' Scholarship Programme through monthly stipends to 100 students who qualified by essay, examination and interviews;
- A leading sponsorship role in support of the Mongolian National Olympic committee, to support the development of Mongolian Olympians and excellence in sports;
- Organized the 8th Student Scientific Conference in conjunction with The Bank of Mongolia for over 80 students drawn from 14 universities and colleges;
- Successfully organized a training session "Future Payment Trends" among high school pupils teaching the use of payment cards and their benefits;
- Built a new state of the art library equipped with ultra-modern IT technology to provide a comfortable learning environment for students at the Mongolian University of Science and Technology;
- Our employees initiated a programme at their own expense to help those households most affected by the torrential downpour and flooding in Mongolia on 17th-18th July and contributed one day's salary to provide replacement household equipment for those who lost their houses and gers in the flood;
- Organized friendly sports competitions among customers, card merchants and our respected banking competitors in cooperation with MasterCard Worldwide.

GREEN BUSINESS AND GREEN ECONOMY

Golomt Bank signed a contract with Mongolian National Chamber of Commerce and Industry to support the "Green Business" and the "Green Economy". Moreover, the Bank collaborates with many of the donor community and project-implementing organizations to support local businesses that aim to sustain the green economy and environmentally friendly operations.

- In collobration with Dutch Government and the Mongolian National Chamber of Commerce and Industry, the Bank has been implemented a project to provide loan guarantees to clean production and energy efficiency companies (ESKO) supporting their activities with discounted loan rates to encourage SMEs to develop environmentally conscious business activities in Mongolia;
- In order to reduce greenhouse gas emissions and environmental pollution so as to achieve an environmentally sustainable economy, the Bank has been promoting CDM projects through providing banking, advisory and information services in cooperation with the National Authority and Ministry of Environment and Tourism of Mongolia and the KfW Carbon Fund;
- The Bank implements "Private Sector Development Credit Project" and "Two-Step-Loan Project for Small and Medium-Scaled Entreprises Development and Environmental Protection" cooperating with International Development Association (an affiliate of The World Bank) and the Government of Japan to support private sector development and environmentally friendly businesses by providing long-term loans with concessionary interest rates.

In 2009, once again the Bank received the "Excellence in Corporate Social Responsibility Award" from the Mongolian National Chamber of Commerce and Industry for its diverse social responsibility initiatives underpinned by its leading contribution to socio-economic prosperity and efforts to address social issues.

PRODUCTS AND SERVICES

FOR CORPORATE CUSTOMERS:

Deposits and Current Account Services

- Current Account Services
- Overdraft
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Preliminary Interest Rate Deposits
- Certificate of Deposits
- Gold Deposits
- Accumulated deposit
- “Golden Key” children’s deposit
- Corporate Deposit

Escrow Account Services

Loan Services

- Corporate Loans
    - Working Capital Loan
    - Credit Line
    - Investment loan
    - Heavy machine, Mechanism and Equipment leasing loan
    - Non-Bank Financial Institution loan
    - Private Sector Development loan
    - Mineral Resource loan
    - Import loan
    - Letter of credit
    - Green loan
- Project Loans

Bank Guarantees

- Tender Guarantee
- Advance Payment Guarantee
- Performance Bonds

Foreign Exchange Trading Services

Card services

- MasterCard card
    - Platinum
    - Gold (domestic, international)
    - Standard (domestic, international)
    - Maestro(students)
    - Gift card
    - Dual card(MNT/USD and MNT/EUR)
- Visa card
    - Platinum
    - Gold (domestic, international)
    - Classic (domestic, international)
    - Visa Electron (Student Discount card)
    - Gift card
- Amex card acquiring
- China Union Pay card

Co-Branded Card

- MIAT Mileage
- Air Network
- Chamber’s Visa Gold

E-Banking services

- Internet Banking
- Electronic Banking
- SMS Banking
- SMS notification service
- E-Billing
- Mobile Banking
- Call Center
- E-Commerce
- Touch screen service

Payment Services

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

Premier Banking

- Wealth Management

Business Consultancy Services

Other services

- Invoice services
- Money transfer by fax confirmation
- Account statements and reference
- Safe Box Services
- Cash collection service

FOR RETAIL CUSTOMERS:

Deposits and Current Account Services

- Current Account Services
- Overdraft
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Preliminary Interest Rate Deposits
- Certificate of Deposits
- Gold Deposits
- Accumulated deposit
- "Golden Key" children's deposit

Escrow Account Services

Loan Services

- Small Medium Enterprise Loans
  - Working Capital Loan
  - Credit Line
  - Investment loan
  - Heavy machine, Mechanism and
  - Equipment leasing loan
  - Small Medium Business development loan
  - ADB Employment Generation Project Loan
  - Import loan
  - SME Loan from Investment and Development Fund
- Consumer Loans
  - Household
  - Apartment Renovation
  - Salary
  - Auto
- Credit Card
  - Training
  - Saving-Backed
  - Retirement
  - Quick
- Mortgage Loan

Card services

- MasterCard card
  - Platinum
  - Gold (domestic, international)
  - Standard (domestic, international)
  - Maestro(students)
  - Gift card
  - Picture card
  - Dual card(MNT/USD and MNT/EUR)
- Visa card
  - Platinum
  - Gold (domestic, international)
  - Classic (domestic, international)
  - Visa Electron (Student Discount card)
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- MIAT Mileage
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Premier Banking

- Wealth Management

Business Consultancy Services

Other services

- Invoice services
- Money transfer by fax confirmation
- Account statements and reference
- Safe Box Services
- Cash collection service

BRANCH NETWORK

OFFICES IN ULAANBAATAR

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

Name	Address	Contacts
Main Branch	Trade Street 6/2. Chingeltei District, Ulaanbaatar	Tel: +(976-11)-310759, 313155 Fax: +(976-11) -326231
Sansar Branch	Bayantseel Trade Center, Micro-region #15, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-456980 Fax: +(976-11) -456829
Sansar Loan Center	Bayantseel Trade Center, Micro-region #15, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-458898 Fax: +(976-11) -456829
Airport Settlement Center	"Chingis Khaan" International Airport, Khan-Uul District, Ulaanbaatar	Tel: +(976-11)-283205 Fax: +(976-11) -283205
100 Ail Settlement Center	And International Company-B corps, Khoroo #7, Micro-region #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350542 Fax: +(976-11) -350544
Ard Branch	"On and On" company Building, Baga Toiruu Street, Khoroo #1, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-320712 Fax: +(976-11) -330436
Solongo Branch	Solongo Service Center, Natsagdorj Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-320814 Fax: +(976-11) -318479
Sapporo Branch	1st floor, Barmon company Building, Micro-region #1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-681267 Fax: +(976-11) -680367
Moscow Branch	Golomt Bank Building, Micro-region #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-305419 Fax: +(976-11) -368602
Customs Settlement Center	Customs Office, Bayangol District, Ulaanbaatar	Tel: +(976-11)-242943 Fax: +(976-11) -242943
Baganuur Settlement Center	Communication Center Building, Baganuur District, Ulaanbaatar	Tel: +(976-01-21)-22333 Fax: +(976-01-21) -20818
Loan Center	Burkhan Khaldun Building, Khoroo #2, Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-330072 Fax: +(976-11) -330621
Golomt City Branch	Building #4, Golomt City, Khoroo#5, Constitution Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-322943 Fax: +(976-11) -322943
Tsambagarav Settlement Center	Tsambagarav Trade Center, Micro-region #1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-680762 Fax: +(976-11) -680763
Tsetsee Gun Settlement Center	1st floor, Tsetsee Gun University, Khoroo #4, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-316395 Fax: +(976-11) -316395
Tedy Settlement Center	Tedy Service Center, Sambuu's Street – 46, Khoroo #5, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-325970 Fax: +(976-11) -325970
120000 Settlement Center	120 Myangat Service Center, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976-11)-70130080
Peace Bridge Settlement Center	Transportation Service Center, Chingis Avenue – 11, Khoroo #2, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-315949
Tamir Settlement Center	Ard Ayush Street, Micro-region #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-304959 Fax: +(976-11) -304959
Narantuul Settlement Center	2nd floor, Administration Building, Narantuul International Trade Center, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-457018
Ikh Delguur Settlement Center	1st & 2nd floor, Building of "Zan International" Co.Ltd, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-311530, 311971 Fax: +(976-11) -70111352
Chandmani Settlement Center	Chandmani center, Central Museum of Lenin, Bayangol District, Ulaanbaatar	Tel: +(976-11)-70120520 Fax: +(976-11) -70120520
Bayanzukh Settlement Center	1st floor, Bo-Bo trade center, Khoroo #15, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-458250 Fax: +(976-11) -462892

Nomin Settlement Center	5th floor, State Department Store, Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-313232 Fax: +(976-11) -314242
Central Tower Settlement Center	4th floor, Central Tower, Sukhbaatar square, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-326474 Fax: +(976-11) -326494
"32 Toirog" Settlement Center	2nd floor, Sansar-32 Trade Center, 32-r toirog, Khoroo#12, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-77443232 Fax: +(976-11) -77443131
Songino Khairkhan Settlement Center	1st floor, Javkhlant Company Building, Khoroo#19, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-636205 Fax: +(976-11) -636217
Monnis Settlement Center	4th floor, Monnis Tower, Khoroo#4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-321273 Fax: +(976-11) -321273

OFFICES IN AIMAGS (Provinces)

Name	Address	Contacts
Dornod Settlement Center	Zuun Suvarga company Building, Bag #7, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582)-22703 Fax: +(976-01-582) -22702
Zamiin-Uud Settlement Center	2nd floor, Zamiin Uud Railway Station, Bag #1, Zamiin-Uud Soum, Dornogobi Aimag	Tel: +(976-025-245)-43773 Fax: +(976-025-245) -43773
Orkhon Branch	Amar square, Bayan-Undur Soum, Orkhon aimag	Tel: +(976-01-352)-25100 Fax: +(976-01-352) -22510
Orkhon-Pyramid Settlement Center	Sogoot Bag, Bayan-Undur Soum, Orkhon aimag	Tel: +(976-01-352)-23300 Fax: +(976-01-352) -23300
Orkhon-Loan center	2nd floor, Orkhon-Chandmani company Building, Uurkhaichin Bag, Bayan-Undur Soum, Orkhon aimag	Tel: +(976-01-352)-32100 Fax: +(976-01-352) -32100
Darkhan Branch	Social Security Office, Bag #13, Darkhan Soum, Darkhan-Uul aimag	Tel: +(976-01-372)-27136 Fax: +(976-01-372) -27136
Darkhan-Loan center	Mandakh Bayasakh company Building, Bag #8, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976-01-372)-27136 Fax: +(976-01-372) -27136
Khuvsgul Settlement Center	Nemen" company Building, Khoroo #3, Murun Soum, Khuvsgul Aimag	Tel: +(976-01-382)-21474 Fax: +(976-01-382) -21474
Umnugobi Settlement Center	Bag #3, Dalanzadgad City, Umnugobi Aimag	Tel: +(976-01-532)-23991 Fax: +(976-01-532) -23990
Khovd Branch	1st floor, The Bank of Mongolia Building, Tsambagav bag, Jargalant soum, Khovd aimag	Tel: +(976-01-432)-22195 Fax: +(976-01-432) -22195
Bayan-Ulgii Branch	Culture Center, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976-01-422)-22001 Fax: +(976-01-422) -22001
Dornogobi Settlement Center	Ulemj Trade Center, Bag #1, Sainshand soum, Dornogobi Aimag	Tel: +(976-01-522)-42792 Fax: +(976-01-522) -42792
Tsogtsetsii Settlement Center	№1-7, Yamaan Khuren Bag, Tsogtsetsii soum, Umnu-Gobi Aimag	Tel: +(976-01-532)-26520
Gurban tes Settlement Center	1st floor, Khurd Supermarket, Gurvan Tes soum, Bag#4, Umnu-Gobi Aimag	Tel: +(976-01-534)-42266 Fax: +(976-01-534)-42244
Selenge Settlement Center	1st floor of "Mongol Daatgal" building. Sukhbaatar Soum, Sukhbaatar aimag	Tel/Fax: 013-6222318

REPRESENTATIVE OFFICE ADDRESSES

Name	Address	Contacts
Beijing Representative Office	10E, CITIC building Tower A19, Jianguomen Dajie, Beijing. China 100004	Tel: +(86-10)-65033876 Fax: +(86-10) -65923727 Mobile: +(86-139) -11737254 Email: golomt@public2.bta.net.cn
London Representative Office	27 Throgmorton Street, London EC2N 2AQ, United Kingdom	Tel: +(44-0)-20 7382 9900 Fax: +(44-0) -20 7382 9988 Email: jeremy.denton-clark@gbrw.com Email: mail@gbrw.com

GOLOMT BANK OF MONGOLIA

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Ernst & Young Mongolia Audit LLC

Suite 401
4th Floor Bodi Tower
Sukhbaatar Square
Ulaanbaatar, Mongolia
Tel: +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 statement of financial position as at 31st December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

This report is made solely to the shareholder of the Bank, 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.

Ernst & Young Mongolia Audit LLC

Ernst & Young Mongolia Audit LLC
Certified Public Accountants

Chung Sing Peter Yong
Partner

Ulaanbaatar, Mongolia
Date: 26 March 2010

GOLOMT BANK LLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2009

	Note	2009 MNT '000	2008 MNT '000
Interest and similar income	**3**	81,831,663	69,317,998
Interest and similar expenses	**4**	(57,904,980)	(43,569,186)
Net interest income		**23,926,683**	**25,748,812**
Fees and commission income	**5**	10,580,138	8,527,990
Fees and commission expenses	**5**	(2,165,341)	(1,981,894)
Net fees and commission income	**5**	**8,414,797**	**6,546,096**
Net trading income	**6**	12,577	715,234
Other operating income	**7**	4,905,675	1,650,374
Operating income		37,259,732	34,660,516
Operating expenses	**8**	(16,712,030)	(15,178,110)
Profit before credit loss expenses		**20,547,702**	**19,482,406**
Credit loss expense	**9**	(3,239,995)	(3,957,537)
Profit before taxation		**17,307,707**	**15,524,869**
Income tax expense	**10**	(4,138,119)	(3,323,506)
Profit for the year attributable to equity holder of the Bank		**13,169,588**	**12,201,363**
Other comprehensive income			
Available-for-sale financial assets:			
Losses arising during the year		(24,071)	(149,958)
Reclassification adjustment for losses included in the income statement on impairment		51,029	97,092
		26,958	**(52,866)**
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		**26,958**	**(52,866)**
Total comprehensive income for the year attributable to equity holder of the Bank, net of tax		**13,196,546**	**12,148,497**

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

GOLOMT BANK LLC
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2009

	Note	2009 MNT '000	2008 MNT '000
ASSETS			
Cash and balances with central bank	**11**	157,871,951	72,844,769
Due from banks	**12**	216,511,438	137,717,321
Derivative financial instruments	**13**	-	675,861
Financial investments - available-for-sale	**14**	1,026,696	26,588,980
Financial investments - held-to-maturity	**14**	118,518,578	-
Loans and advances to customers	**15**	505,298,994	447,787,130
Property, plant and equipment	**16**	5,347,809	5,132,819
Intangible assets	**17**	1,395,331	1,568,852
Other assets	**18**	7,138,078	4,862,937
TOTAL ASSETS		**1,013,108,875**	**697,178,669**
LIABILITIES			
Due to banks	**19**	52,931,634	8,023,887
Due to customers	**20**	795,251,008	505,170,905
Derivative financial instruments	**13**	381,425	324,181
Borrowed funds	**21**	62,594,970	92,171,059
Subordinated loan	**22**	14,219,900	12,380,289
Other liabilities	**23**	15,153,476	12,571,887
Repurchase agreement	**24**	7,732,840	15,664,251
Tax payable		826,790	51,924
TOTAL LIABILITIES		**949,092,043**	**646,358,383**
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK			
Ordinary shares	**25**	21,934,142	21,934,142
Available-for-sale reserve		(25,908)	(52,866)
Retained earnings		42,108,598	28,939,010
TOTAL EQUITY		**64,016,832**	**50,820,286**
TOTAL EQUITY AND LIABILITIES		**1,013,108,875**	**697,178,669**

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 2009

	Ordinary shares MNT '000	Available-for--sale Reserve MNT '000	Distributable Retained earnings MNT '000	Total MNT '000
At 1st January 2008	21,934,142	-	16,737,647	38,671,789
Profit for the year	-	-	12,201,363	12,201,363
Other comprehensive income	-	(52,866)	-	(52,866)
At 31st December 2008 and 1st January 2009	**21,934,142**	**(52,866)**	**28,939,010**	**50,820,286**
Profit for the year	-	-	13,169,588	13,169,588
Other comprehensive income	-	26,958	-	26,958
At 31st December 2009	**21,934,142**	**(25,908)**	**42,108,598**	**64,016,832**

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

GOLOMT BANK

GOLOMT BANK LLC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2009

	2009 MNT '000	2008 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**17,307,707**	**15,524,869**
Adjustments for :-		
Depreciation of property, plant and equipment	1,770,395	1,625,903
Amortisation of intangible assets	826,428	765,658
Property, plant and equipment written off	5,598	19,093
Credit loss for loans and advances to customers	2,634,548	3,941,714
Credit loss for other assets	605,447	15,823
Changes in fair value of embedded derivatives	57,244	198,975
Gain on disposal of property, plant and equipment	(7,996)	-
Unrealised gain in currency forward contract	-	(675,862)
Impairment loss on foreclosed properties	305,173	300,000
Impairment loss on available-for-sale investment	51,029	97,092
Unrealised foreign exchange losses	1,526,228	1,361,445
Operating profit before working capital changes	**25,081,801**	**23,174,710**
Changes in operating assets:-		
Statutory deposit with Bank of Mongolia	(19,286,800)	-
Loans and advances to customers	(54,086,274)	(125,738,677)
Other assets	(3,308,102)	(840,804)
Changes in operating liabilities:-		
Due to banks	44,907,747	(28,795,517)
Due to customers	290,080,103	(7,314,242)
Other liabilities	7,790,241	(10,200,935)
Derivative financial instruments	675,861	-
Cash generated from/(used in) operations	**291,854,577**	**(149,715,465)**
Income tax paid	(3,240,912)	(3,570,338)
Net cash flow generated from/(used in) operating activities	**288,613,665**	**(153,285,803)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial investments	(813,915,781)	(630,441,073)
Proceeds from disposal and maturity of financial investments	720,935,416	638,653,002
Proceeds on disposal of property, plant and equipment	182,032	14,744
Purchase of property, plant and equipment	(2,165,019)	(2,073,648)
Purchase of repurchase agreements	389,278,029	274,910,817
Proceeds from maturity of repurchase agreements	(397,209,440)	(259,246,566)
Purchase of intangible assets	(652,907)	(396,358)
Net cash flow (used in)/generated from investing activities	**(103,547,670)**	**21,420,918**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of borrowed funds	41,716,804	75,741,670
Repayment of borrowed funds	(82,248,300)	(9,450,616)
Repayment of subordinated loans	-	(4,500,000)
Net cash flow (used in)/generated from financing activities	**(40,531,496)**	**61,791,054**
Net increase/(decrease) in cash and cash equivalents	144 534,499	(70,073,831)
Cash and cash equivalents brought forward	210,562,090	280,635,921
Cash and cash equivalents carried forward (Note 26)	**355,096,589**	**210,562,090**

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

GOLOMT BANK LLC
NOTES TO THE FINANCIAL STATEMENTS - 31ST DECEMBER 2009

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 2009 were authorised for issue by the Board of Governors in accordance with a resolution of the Governors on 19 March 2010.

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 statement of comprehensive income using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income is recognised in the statement of comprehensive income as it accrued, except in the case of impaired loans and advances. Interest on impaired financial assets is recognised at the original effective interest rates of the financial assets applied to the impaired carrying amount.

(b) Fees and commission income

Fees and commission income derived by the Bank relate mainly to 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.

(c) Foreign currencies translation

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Foreign currencies translation (contd.)

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 statement of financial position date.

Deferred tax is provided for, using the liability method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is 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 statement of financial position date. Deferred tax is recognised in the statement of comprehensive income, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, 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 'Net trading 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 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 statement of financial position 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 statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit and loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

(vi) 'Day 1' profit

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 statement of comprehensive income 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 statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

(vii) Held-to-maturity financial investments

Held-to-maturity financial investments are 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 statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line 'Impairment losses on financial investments'.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(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 statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'Credit loss expense'.

(ix) Available-for-sale financial investments

Available-for-sale 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 statement of comprehensive income in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

(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) Securitisation

As part of its operational activities, the Bank securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on 'Derecognition of financial assets and financial liabilities'. Interests in the securitised financial assets may be retained by the Bank and are primarily classified as financial assets recorded at fair value through profit or loss, and gains and losses are reported in "Interest and similar income". Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

(h) 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.

(i) Determination of fair value

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

For all other financial instruments not 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.

(j) Impairment of financial assets

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Impairment of financial assets(contd.)

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

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

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

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

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

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

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

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

(ii) Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced, and the amount of the loss is recognised in the statement of comprehensive income.If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

(iii) Available-for-sale financial investments

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

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

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

(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.

(k) Offsetting financial instruments

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

(l) Property, plant and equipment

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

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

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Property, plant and equipment (contd.)

Buildings	10 - 40 years
Leasehold improvement	10 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.

(m) 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 statement of comprehensive income 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.

(n) Impairment of non-financial assets

The Bank assesses at each statement of financial position 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 statement of financial position 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.

(o) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position 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 statement of financial position 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 statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position 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.

(p) 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 statement of comprehensive income in 'Credit loss expense'. The premium received is recognised in the statement of comprehensive income in 'Other operating income' on a straight-line basis over the life of the guarantee.

(q) 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.

(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.

(r) Operating leases

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

(s) 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 statement of financial position date are disclosed as an event after the statement of financial position date.

2.3 CHANGE IN ACCOUNTING POLICIES

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

* IFRS 1:	First-time Adoption of International Financial Reporting Standards - Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
* IFRS 2:	Share-based payments - Vesting Conditions and Cancellations (Amendment)
* IFRS 7:	Financial Instruments: Disclosures (Amendments)
* IFRS 8:	Operating Segments
* IAS 1:	Presentation of Financial Statements (Revised)
* IAS 23:	Borrowing Costs (Revised)
* IAS 27:	Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
* IAS 32:	Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
* IFRIC 9:	Reassessment of Embedded Derivatives and IAS 39 Financial Instruments : Recognition and Measurement - Embedded Derivatives (Amendments)
* IFRIC 13:	Customer Loyalty Programmes
* IFRIC 15:	Agreements for the Construction of Real Estate
* IFRIC 16:	Hedges of a Net Investment in a Foreign Operation

Improvements to International Financial Reporting Standards, which includes:

* IAS 1:	Presentation of Financial Statements
* IAS 8:	Accounting Policies, Changes in Accounting Estimates and Errors
* IAS 10:	Events after the Reporting Period
* IAS 16:	Property, Plant and Equipment
* IAS 18:	Revenue
* IAS 19:	Employee Benefits
* IAS 20:	Accounting for Government Grants and Disclosure of Government Assistance
* IAS 23:	Borrowing Costs
* IAS 27:	Consolidated and Separate Financial Statements
* IAS 28:	Investments in Associates
* IAS 29:	Financial Reporting in Hyperinflationary Economics
* IAS 31:	Interest in Joint Ventures
* IAS 34:	Interim Financial Reporting
* IAS 36:	Impairment of Assets
* IAS 38:	Intangible Assets
* IAS 39:	Financial Instruments: Recognition and Measurement
* IAS 40:	Investment Property
* IAS 41:	Agriculture
* IFRS 7:	Financial instruments: Disclosures

The adoption of the above interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Bank except for those discussed below:

*** IAS 1: Presentation of financial statements**

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in one single statement. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

Amendments to IFRS 7 Financial Instruments:
Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

Comparative information has been restated although this is not strictly required by the transition provisions of the amendment.

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

* IFRS 1:	First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters (Amendments)
* IFRS 2:	Group Cash-settled Share-based Payment Arrangements
* IFRS 3:	Business Combinations (Revised)
* IFRS 5:	Non-current Assets Held for Sale and Discontinued Operations
* IAS 27:	Consolidated and Separate Financial Statements (Amendment)
* IAS 39:	Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)
* IFRIC 17:	Distributions of Non-Cash Assets to Owners
* IFRIC 18:	Transfers of Assets from Customers
* IFRIC 19:	Extinguishing Financial Liabilties with Equity Instruments

Improvements to International Financial Reporting Standards, which includes:

* IAS 1:	Presentation of Financial Statements
* IAS 36:	Impairment of Assets
* IAS 38:	Intangible Assets
* IAS 39:	Financial Instruments: Recognition and Measurement
* IFRS 2:	Share based Payments

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

Improvements to International Reporting Standards, which includes (centd) :

* IFRS 5:	Non-current Assets Held for Sale and Discontinued Operations
* IFRS 8:	Operating Segments
* IAS 7:	Statement of Cash Flows
* IAS 17:	Leases
* IAS 18:	Revenue
* IFRIC 9:	Reassessment of Embedded Derivatives
* IFRIC 16:	Hedges of a Net Investment in a Foreign Operation

The Governors anticipate that the adoption of these Standards and Interpretations in the future periods will have no material impact on the financial statements of the Bank except that the impact of adopting the improvement to IAS 39: Financial Instruments: Recognition and Measurement which the Bank is in the midst of quantifying the potential impact on financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS 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 statement of financial position 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 statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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.

(iii) Impairment on quoted equity investments

The Bank treats available-for-sales equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ""significant"" or ""prolonged"" requires judgement. The Bank treats ""significant"" generally as 20% or more of the cost and ""prolonged"" greater than 6 months from the date of purchase. In addition, the Bank evaluates other factors, such as the share price volatility.

3. INTEREST AND SIMILAR INCOME

	2009	2008
	MNT '000	MNT '000
Loans and advances to customers	73,915,148	59,731,800
Due from banks	1,467,808	5,281,159
Financial investments - available-for-sale	6,352,150	4,288,572
Reverse repurchase agreements	96,557	16,467
Total interest income from financial assets not designated at fair value through profit or loss	**81,831,663**	**69,317,998**

4. INTEREST AND SIMILAR EXPENSES

	2009	2008
	MNT '000	MNT '000
Due to customers	48,193,352	35,503,508
Due to banks	902,039	1,708,089
Borrowed funds and subordinated loans	8,468,264	5,326,693
Repurchase agreements	256,644	1,004,278
Total interest expense from financial liabilities not designated at fair value through profit or loss	**57,820,299**	**43,542,568**
Others	84,681	26,618
	57,904,980	**43,569,186**

5. NET FEES AND COMMISSION INCOME

	2009	2008
	MNT '000	MNT '000
Fees and commission income		
Account service fees and commissions	2,122,298	2,021,993
Card related fees and commissions	2,378,026	1,666,475
Credit related fees and commissions	2,018,257	2,763,337
Remittance and other service fees	4,061,557	2,076,185
	10,580,138	**8,527,990**
Fees and commission expenses		
Bank service expenses	(969,694)	(1,058,540)
Card transaction expenses	(1,195,647)	(923,354)
	(2,165,341)	**(1,981,894)**
Net fees and commission income from financial assets and that are not designated at fair value through profit or loss	**8,414,797**	**6,546,096**

6. NET TRADING INCOME

	2009	2008
	MNT'000	MNT'000
Unrealised gain in currency forward contract	-	675,862
Precious metal	12,577	39,372
	12,577	**715,234**

7. OTHER OPERATING INCOME

	2009 MNT '000	2008 MNT '000
Gain on disposal of property, plant and equipment	7,996	-
Realised foreign exchange gain	6,292,300	2,962,427
Unrealised foreign exchange loss	(1,526,228)	(1,361,445)
Other operating income	131,607	49,392
	4,905,675	**1,650,374**

8. OPERATING EXPENSES

	2009 MNT '000	2008 MNT '000
Advertising	702,439	823,290
Amortisation of intangible assets (Note 17)	826,428	765,658
Changes in fair value of embedded derivative (Note 22)	57,244	198,975
Communications	543,052	466,435
Depreciation of property, plant and equipment (Note 16)	1,770,395	1,625,903
Donations	18,677	12,251
Entertainment	58,309	52,448
Impairment loss on financial investments - available-for-sale	51,029	97,092
Impairment loss on foreclosed properties (Note 18)	305,173	300,000
Insurance	90,163	270,008
Loan collection expenses	173,006	162,710
Other operating expenses	462,344	127,483
Penalty	2,809	162,829
Professional fees	730,740	930,551
Property, plant and equipment written-off (Note 16)	5,598	19,093
Rental of premises	2,549,325	1,914,613
Repairs and maintenance	615,181	374,601
Safety expenses	696,241	1,191,275
Staff costs *	5,735,277	4,375,558
Stationery	517,085	433,699
Transportation	286,316	276,726
Travelling expenses	315,719	447,403
Utilities	199,480	149,509
	16,712,030	15,178,110
*** Staff Costs**		
Salaries, wages and bonus	4,992,501	3,653,479
Contribution to social and health fund	543,415	420,059
Staff training	144,941	281,094
Staff benefit	54,420	20,926
	5,735,277	**4,375,558**

9. CREDIT LOSS EXPENSES

	2009 MNT '000	2008 MNT '000
Loans and advances to customers		
Corporate lending	178,862	658,278
Small business lending	547,598	3,041,876
Consumer lending	1,372,973	313,154
Residential mortgages	543,464	(39,619)
Others	(8,349)	(31,975)
	2,634,548	**3,941,714**
Other receivables (Note 18)	605,447	15,823
	3,239,995	**3,957,537**

10. INCOME TAX EXPENSE

	2009 MNT '000	2008 MNT '000
Current income tax:		
Based on results for the year	**4,138,119**	**3,323,506**

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 the Bank is 10% (2008: 10%) for the first MNT3 billion (2008: MNT3 billion) of taxable income, and 25% (2008: 25%) on the excess of taxable income over MNT3 billion (2008: MNT3 billion). Interest income on government bonds is not subject to income tax. Impairment losses for loans and advances are 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 years ended 31 December is as follows:

	2009 MNT '000	2008 MNT '000
Profit before taxation	**17,307,707**	**15,524,869**
Tax at statutory tax rate of 25%	4,326,927	3,881,217
Effect of income subject to lower tax rate	(450,000)	(450,000)
Effect of income not subject to tax	(55,536)	(202,362)
Effect of expenses not allowable for tax purposes	316,728	94,651
Tax expense for the year	**4,138,119**	**3,323,506**

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

11. CASH AND BALANCES WITH CENTRAL BANK

	2009 MNT '000	2008 MNT '000
Cash on hand	44,786,624	29,487,680
Current account with the central bank	113,085,327	43,357,089
	157,871,951	**72,844,769**

11. CASH AND BALANCES WITH CENTRAL BANK (CONTD.)

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 Bank of Mongolia are determined at not less than 5.0 % (2008: 5.0%) of customer deposits for periods of 2 weeks. As at 31 December 2009, the average reserve required by Bank of Mongolia was MNT 18,298 million (2008: MNT 10,919.4 million) for local currency and MNT 20,275 million (2008: MNT 13,698.7 million) for foreign currency. As a result of an amendment to the Regulation on Calculating and Controlling Reserve Requirements, with effect from 27 March 2009, the Bank is no longer allowed to utilise 50% of its required reserve to finance the Bank's day to day operations.

12. DUE FROM BANKS

	2009 MNT '000	2008 MNT '000
Placement with other banks and financial institutions	216,511,438	83,772,095
Loans and advances	-	53,945,226
	216,511,438	**137,717,321**

Due from banks represent local and foreign currency current accounts and deposits maintained with foreign and local financial institutions.

Placements with other banks and financial institutions amounting to MNT52.95 million (2008: MNT45.68 million) are pledged to a bank as security for a loan as disclosed in Note 21.

13. 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.

	2009 MNT '000	2008 MNT '000
Assets		
- Derivatives held for trading - forward foreign currency exchange contracts	**-**	**675,861**
Liabilities		
- Equity and currency derivatives (Note 22)	**381,425**	**324,181**
Notional amount		
Derivatives held for trading		
- Forward foreign currency exchange contracts	**-**	**16,652,521**

14. FINANCIAL INVESTMENTS

	2009	2008
	MNT '000	MNT '000
Available-for-sale:		
The Bank of Mongolia treasury bills, at fair value	-	25,225,237
Unquoted government bond, at fair value	-	981,221
Unquoted equities, at cost	837,370	264,376
Quoted equities, at fair value	189,326	118,146
	1,026,696	**26,588,980**
Held-to-maturity:		
The Bank of Mongolia treasury bills, at fair value	110,496,687	-
Unquoted government bond, at fair value	7,273,519	-
Promissory note	748,372	-
	118,518,578	**-**

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. Unquoted government bond is issued by The Ministry of Finance with maturity less than 3 months, and issued at a discount.

Unquoted equities represent investment made in unquoted companies. Investments in unquoted shares are recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

Quoted equities represent investment in several equities quoted on the Mongolia Stock Exchange.

Promissory note represents investment in Erdenet Uildver LLC with a maturity of less than three months issued at discount.

15. LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	MNT '000	MNT '000
Corporate lending	296,758,632	272,135,850
Small business lending	132,286,714	108,431,261
Consumer lending	11,466,561	19,157,477
Residential mortgages	37,592,629	39,488,745
Others	36,184,351	19,517,034
	514,288,887	**458,730,367**
Accrued interest receivables	9,051,510	4,303,913
Gross loans and advances	523,340,397	463,034,280
Less: Allowance for impairment losses	(18,041,403)	(15,247,150)
Net loans and advances	**505,298,994**	**447,787,130**

In 2008, loans and advances to customers amounting to MNT 17.68 billion were pledged against an MNT 25 billion fixed rate loan due 2009 and an MNT12.7 billion fixed rate loan due 2009 as disclosed in Note 21

15. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

"Derecognition of a loan portfolio

In 2008, the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate mortgage loans carried at MNT 1,008,029,508 with a fair value of MNT 1,008,039,508 to Mongolian Mortgage Corporation for a payment of MNT 995,445,139 in full and the Bank incurred a charge of MNT 12,584,369 in respective of this transaction. The Bank has determined that substantially all the risks and rewards of the portfolio have been transferred. The risks include credit, interest rate, currency, prepayment and price risks. Hence the Bank has derecognised the entire portfolio from its statement of financial position.

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:

	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 31st December 2009						
At 1st January 2009	9,649,322	4,982,875	589,255	17,277	8,421	15,247,150
Charge for the year	2,472,246	1,083,916	1,453,795	673,600	-	5,683,557
Recoveries	(2,293,384)	(536,318)	(80,822)	(130,136)	(8,349)	(3,049,009)
Amounts written off	-	(2,000)	(2,364)	-	-	(4,364)
Exchange difference	122,699	7,006	33,456	907	1	164,069
At 31st December 2009	**9,950,883**	**5,535,479**	**1,993,320**	**561,648**	**73**	**18,041,403**
Individual impairment	718,832	4,122,425	480,791	434,347	-	5,756,395
Collective impairment	9,232,051	1,413,054	1,512,529	127,301	73	12,285,008
	9,950,883	**5,535,479**	**1,993,320**	**561,648**	**73**	**18,041,403**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,373,570**	**8,401,568**	**777,692**	**792,064**	**-**	**13,344,894**

	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 31st December 2008						
At 1st January 2008	11,743,665	1,942,204	533,742	53,519	40,384	14,313,514
Charge for the year	3,049,899	3,695,878	656,580	93,244	8,169	7,503,770
Recoveries	(2,391,621)	(654,002)	(343,426)	(132,863)	(40,144)	(3,562,056)
Amounts written off	(2,781,200)	(19,224)	(269,707)	-	-	(3,070,131)
Exchange difference	28,579	18,019	12,066	3,377	12	62,053
At 31st December 2008	**9,649,322**	**4,982,875**	**589,255**	**17,277**	**8,421**	**15,247,150**
Individual impairment	4,595,213	2,458,567	243	-	-	7,054,023
Collective impairment	5,054,109	2,524,308	589,012	17,277	8,421	8,193,127
	9,649,322	**4,982,875**	**589,255**	**17,277**	**8,421**	**15,247,150**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**13,220,655**	**4,956,411**	**1,853**	**-**	**-**	**18,178,919**

The fair value of the collateral that the Bank holds relating to loans individually determined to be impaired at 31st December 2009 amounts to MNT47.04 billion (2008: MNT52.27 billion). 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 30.

Collateral repossessed

During the year, the Bank took possession of buildings with carrying amounts as at 31 December 2009 of MNT 108,464,000 (2008: MNT 602,500,000). The Bank is in the process of selling these buildings.

16. PROPERTY, PLANT AND EQUIPMENT

At 31st December 2009	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Total MNT '000
At cost				
At 1st January 2009	1,748,034	30,538	8,174,964	9,953,536
Additions	-	-	2,164,529	2,164,529
Disposals	(193,802)	-	(60,311)	(254,113)
Transfers	-	-	485	485
Write-offs (Note 8)	-	-	(134,088)	(134,088)
At 31st December 2009	**1,554,232**	**30,538**	**10,145,579**	**11,730,349**
Accumulated depreciation				
At 1st January 2009	378,808	28,162	4,413,747	4,820,717
Charge for the year (Note 8)	81,960	2,376	1,686,059	1,770,395
Disposals	(26,850)	-	(53,227)	(80,077)
Transfers	-	-	(5)	(5)
Write-offs (Note 8)	-	-	(128,490)	(128,490)
At 31st December 2009	433,918	30,538	5,918,084	6,382,540
Net carrying amount	**1,120,314**	**-**	**4,227,495**	**5,347,809**

16. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Total MNT '000
At cost				
At 1st January 2008	1,430,748	30,538	6,834,690	8,295,976
Additions	317,286	-	1,756,362	2,073,648
Disposals	-	-	(99,026)	(99,026)
Write-offs (Note 8)	-	-	(317,062)	(317,062)
At 31st December 2008	**1,748,034**	**30,538**	**8,174,964**	**9,953,536**
Accumulated depreciation				
At 1st January 2008	302,454	25,108	3,249,503	3,577,065
Charge for the year (Note 8)	76,354	3,054	1,546,495	1,625,903
Disposals	-	-	(84,282)	(84,282)
Write-offs (Note 8)	-	-	(297,969)	(297,969)
At 31st December 2008	**378,808**	**28,162**	**4,413,747**	**4,820,717**
Net carrying amount	**1,369,226**	**2,376**	**3,761,217**	**5,132,819**

17. INTANGIBLE ASSETS

	Software and Licenses	
	2009 MNT '000	2008 MNT '000
At cost		
At 1st January	2,837,436	2,441,078
Addition	652,907	396,358
At 31st December	**3,490,343**	**2,837,436**
Accumulated amortisation		
At 1st January	1,268,584	502,926
Charge for the year (Note 8)	826,428	765,658
At 31st December	**2,095,012**	**1,268,584**
Net carrying amount	**1,395,331**	**1,568,852**

18. OTHER ASSETS

	2009 MNT '000	2008 MNT '000
Other receivables	1,694,396	808,868
Less: Allowance for impairment losses	(628,801)	(65,685)
	1,065,595	**743,183**
Foreclosed properties	108,464	602,500
Less: Allowances for impairment losses	(2,673)	(300,000)
	105,791	**302,500**
Prepaid expenses	5,251,678	2,816,450
Consumables and other inventories	715,014	878,463
Tax recoverable	-	122,341
	7,138,078	**4,862,937**
Impairment allowance for other receivables		
At 1st January	65,685	47,158
Charge for the year (Note 9)	605,447	15,823
Written off	(53,171)	(7,477)
Effect of exchange rate	10,840	10,181
At 31st December	**628,801**	**65,685**
Impairment allowance for foreclosed properties		
At 1st January	300,000	-
Charge for the year (Note 8)	305,173	300,000
Written off	(602,500)	-
At 31st December	**2,673**	**300,000**

19. DUE TO BANKS

	2009 MNT '000	2008 MNT '000
Deposits from other banks and financial institutions	**52,931,634**	**8,023,887**

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

20. DUE TO CUSTOMERS

	2009 MNT '000	2008 MNT '000
Government deposits		
- Current accounts	30,008,303	27,599,845
- Demand deposits	15,065,316	2,378,477
- Time deposits	28,994,561	27,029,553
Private sector deposits		
- Current accounts	128,736,786	104,056,896
- Demand deposits	22,948,742	9,125,510
- Time deposits	44,210,031	5,702,807
Individual deposits		
- Current accounts	26,629,333	35,054,204
- Demand deposits	194,523,794	103,163,335
- Time deposits	280,213,639	176,849,232
Other deposits		
- Current accounts	10,279,949	10,991,442
- Demand deposits	9,353,145	1,023,424
- Time deposits	4,287,409	2,196,180
	795,251,008	**505,170,905**

Included in 'Due to customers' were deposits of MNT 4.78 billion (2008: MNT 7.97 billion) held as collateral for irrevocable commitments under financial guarantees.

21. BORROWED FUNDS

	Effective Interest rate 2009 (%)	2009 MNT'000	2008 MNT'000
Direct Loans:			
EUR 316 thousand floating rate loan due 2011, **	6,87	589,986	529,315
MNT 25 billion fixed rate loan due 2009, **	18,86	-	25,000,000
USD 27.5 million fixed rate loan due 2010, *	12,00	40,515,886	35,586,315
		41,105,872	**61,115,630**

21. BORROWED FUNDS (CONTD.)

	Effective Interest rate 2009 (%)	2009 MNT'000	2008 MNT'000
Pass-through Loans:			
MNT 12.7 billion fixed rate loan due 2009, **	12,00	-	12,695,690
USD 3.3 million floating rate loan due 2010, *	3.62-4.77	23,085	300,119
MNT 910 million fixed rate loan due 2014, *	5,75	910,000	70,548
USD 0.6 million floating rate loan due 2014, *	2.56-4.14	865,704	-
USD 0.2 million fixed rate loan due 2019, *	2,00	308,208	299,612
USD 1.9 million floating rate loan due 2013, *	2.11-4.11	2,712,454	2,448,829
MNT 2.8 billion floating rate loan due 2019, *	4.80-5.90	5,577,955	2,855,080
MNT 1.2 billion fixed rate loan due 2010, *	10,00	519,600	1,075,269
MNT 3.9 billion fixed rate loan due 2019, *	7,00	3,574,340	3,968,271
MNT 3.6 billion fixed rate loan due 2009, *	5,48	-	2,403,653
Asian Development Bank floating rate loan, *	7.69-8.04	4,034,097	4,938,358
USD 0.84 million fixed rate loan due 2011, *	5,85	1,227,655	-
MNT 1.7 billion fixed rate loan due 2014 *	0,00	1,736,000	-
		21,489,098	**31,055,429**
Total		**62,594,970**	**92,171,059**
* Unsecured			
** Secured			

The EUR316 thousand floating rate loan due in 2011 is secured on a placement with other banks and financial institutions as referred to Note 12.

The MNT25 billion fixed rate loan (direct loan) repaid in 2009 was secured by the Bank's loans and advances to customers as referred to Note 15.

The MNT12.7 billion fixed rate loan (pass-through loan) repaid in 2009 was secured by the Bank's loans and advances to customers as referred to Note 15.

Asian Development Bank

The loan was disbursed to housing loan borrowers. The interest rate ranged from 7.69% to 8.04% (2008: 7.64% to 8.04%) per annum. Terms of repayment and maturity dates of the loan are in accordance with the various repayment schedules.

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

22. SUBORDINATED LOAN

	2009 MNT'000	2008 MNT'000
Subordinated convertible loan from Credit Suisse	14,219,900	12,380,289
	14,219,900	**12,380,289**

22. SUBORDINATED LOAN (CONTD.)

Subordinated convertible loan from Credit Suisse

The Bank received a USD10 million 5-year subordinated convertible loan from Credit Suisse, Singapore Branch in 2007 which was amended on 19 December 2008 with revised terms as follows:

(a) Conversion option - Credit Suisse has the option at any time during the loan life to convert the loan into new ordinary shares of MNT1,000 each of the Bank at a fixed exchange rate of MNT1,170.79 and a Strike Price comprising the lower of MNT4,848.49 or the subscription price in any qualifying Initial Public Offer ("IPO") less any dividends as at the conversion date.

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

The gross proceeds received (net of transaction costs) from the issue of the loan were split into its liability and embedded derivative components. The fair values of the embedded equity and currency derivatives were priced using a standard option pricing model based on market values 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 13) MNT'000	Total MNT'000
At 31st December 2008	**12,380,289**	**324,181**	**12,704,470**
At 31st December 2009	**14,219,900**	**381,425**	**14,601,325**

As at 31st December 2009 and as at 31 December 2008, the fair value of the equity and currency derivatives have been determined based on standard option pricing model with the difference recognised to profit or loss.

23. OTHER LIABILITIES

	2009 MNT '000	2008 MNT '000
Payables	7,452,283	6,771,108
Foreign and domestic remittances held over	1,320,317	804,707
Clearing settlement held over	3,918,567	1,582,283
Deferred income	2,462,309	3,413,789
	15,153,476	**12,571,887**

Deferred income represents loan interest received in advance from the Ministry of Food and Agriculture to subsidise part of the interest charged on Agriculture Support Funds disbursed by the Bank to qualified borrowers.

24. REPURCHASE AGREEMENT

As part of the repurchase agreement, the Bank has sold The Bank of Mongolia's bill that it is allowed to repurchase in the future. The bill bears term for 4 days (2008: 17 days to 21 days). The fair value of the bill approximate its carrying amount at 31 December 2009

25. ORDINARY SHARES

	Number of shares 2009	Number of shares 2008	Amount 2009 MNT '000	Amount 2008 MNT '000
At 1st January/31st December	**21,934,142**	**21,934,142**	**21,934,142**	**21,934,142**

26. CASH AND CASH EQUIVALENTS

	Note	2009 MNT '000	2008 MNT '000
Cash and balances with central bank	**11**	157,871,951	72,844,769
Due from banks	**12**	216,511,438	137,717,321
		374,383,389	**210,562,090**
Less: Minimum reserve with Bank of Mongolia not available to finance the Bank's day to day operations (refer Note 11)		(19,286,800)	-
Total cash and cash equivalents		**355,096,589**	**210,562,090**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 MNT '000	Level 2 MNT '000	Level 3 MNT '000	Total MNT '000
At 31st December 2009				
Financial assets				
Financial investment available-for-sale				
Quoted equities	189,326	-	-	189,326
Total	**189,326**	-	-	**189,326**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	**381,425**	**381,425**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative product valued using a valuation technique with non-market observable inputs are primarily long dated convertible subordinated loan. These derivatives are valued using standard option pricing model taking into account prevailing risk-free interest, the volatility of foreign exchange rates, the estimated spot price and term to maturity.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial liability which are recorded at fair value:

	At 1ST January 2009 MNT '000	Total gains/(losses) recorded in profit or loss MNT '000	Purchases MNT '000	At 31ST December 2009 MNT '000
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	(324,181)	**(57,244)**	-	(381,425)
Total level 3 financial liability	**(324,181)**	**(57,244)**	-	**(381,425)**

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2009 Unrealised (Losses) MNT '000
Total gains or (losses) included in the profit or loss for the period	**(57,244)**

Transfers between level 1 and 2

There were no transfers between level 1 to level 2 of the fair value hierachy for the financial assets and liabilities which are recorded at fair value.

Fair value of financial assets and liabilities not carried at fair value

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 approximates 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 deposits and variable rate financial instruments. Based on fair value assessments performed by the management, the estimated fair values of due from banks of more than one year as disclosed in Note 29 approximate their carrying amounts as shown in the balance sheet. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. 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 to maturity.

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

	Note	Carrying amount 2009 MNT '000	Fair value 2009 MNT '000	Carrying amount 2008 MNT '000	Fair value 2008 MNT '000
Financial assets					
Cash and balances with central bank	**11**	157,871,951	157,871,951	72,844,769	72,844,769
Due from banks	**12**	216,511,438	216,511,438	137,717,321	137,717,321
Financial investment - held-to-maturity					
The Bank of Mongolia treasury bills	**14**	110,496,687	110,496,687	25,225,237	25,225,237
Unquoted government bond	**14**	7,273,519	7,273,519	981,221	981,221
Promissory note	**14**	748,372	748,372	-	-
Loans and advances to customers	**15**	505,298,994	506,437,576	447,787,130	442,025,418
Other receivables	**18**	1,065,595	1,065,595	743,183	743,183
		999,266,556	**1,000,405,138**	**685,298,861**	**679,537,149**
Financial liabilities					
Due to banks	**19**	52,931,634	52,931,634	8,023,887	8,023,887
Due to customers	**20**	795,251,008	795,251,008	505,170,905	505,170,905
Borrowed funds	**21**	62,594,970	62,594,970	92,171,059	92,171,059
Subordinated loans	**22**	14,219,900	14,219,900	12,380,289	12,380,289
Other liabilities, excluding deferred income	**23**	12,691,167	12,691,167	9,158,098	9,158,098
Repurchase agreement	**24**	7,732,840	7,732,840	15,664,251	15,664,251
		945,421,519	**945,421,519**	**642,568,489**	**642,568,489**

28. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2009 MNT '000	2008 MNT '000
Contingent liabilities		
Financial guarantees	10,751,333	5,428,067
Letters of credit	23,941,432	16,258,501
Performance guarantees	28,885,510	8,417,983
	63,578,275	**30,104,551**

28. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

	2009 MNT '000	2008 MNT '000
Commitments		
Undrawn commitments to lend	11,748,372	10,559,969
Total	**75,326,647**	**40,664,520**

Contingent liabilities

Letters of credit and 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 risk as loans even though they are of contingent nature. No material losses are anticipated as a result of these transactions.

Undrawn commitment to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments 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 commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Other commitments	2009 MNT'000	2008 MNT'000
Approved and contracted for:	37,027	601,898
Property, plant and equipment	121,156	1,022,680
Intangible assets	**158,183**	**1,624,578**

Operating lease commitments - Bank as lessee

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

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Bank had no unresolved legal claims.

29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 30.3 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

At 31st December 2009	Less than 12 months MNT '000	More than 12 months MNT '000	Total MNT '000
Financial assets			
Cash and balances with			
central bank	157,871,951	-	157,871,951
Due from banks	216,458,485	52,953	216,511,438
Financial investments -			
- available-for-sale	1,026,696	-	1,026,696
- held-to-maturity	118,518,578	-	118,518,578
Loans and advances			
to customers	333,931,549	171,367,445	505,298,994
Other receivables	1,065,595	-	1,065,595
	828,872,854	**171,420,398**	**1,000,293,252**
Non financial assets			
Property, plant and equipment	1,584,579	3,763,230	5,347,809
Intangible assets	656,391	738,940	1,395,331
Other assets	1,962,421	4,110,062	6,072,483
	4,203,391	**8,612,232**	**12,815,623**
Total	**833,076,245**	**180,032,630**	**1,013,108,875**
Financial liabilities			
Due to banks	52,931,634	-	52,931,634
Due to customers	795,251,008	-	795,251,008
Derivative financial instruments	381,425	-	381,425
Borrowed funds	45,389,478	17,205,492	62,594,970
Subordinated loans	188,372	14,031,528	14,219,900
Other liabilities	12,691,167	-	12,691,167
Repurchase agreement	7,732,840	-	7,732,840
	914,565,924	**31,237,020**	**945,802,944**
Non financial liabilities			
Deferred income	2,462,309	-	2,462,309
Tax payable	826,790	-	826,790
	3,289,099	**-**	3,289,099
Total	**917,855,023**	**31,237,020**	**949,092,043**
Net	**(84,778,778)**	**148,795,610**	**64,016,832**

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

	Less than 12 months MNT '000	More than 12 months MNT '000	Total MNT '000
Financial assets			
Cash and balances with			
central bank	72,844,769	-	72,844,769
Due from banks	137,671,643	45,678	137,717,321
Derivative financial instruments	675,861	-	675,861
Financial investments -			
- available-for-sale	26,588,980	-	26,588,980
Loans and advances			
to customers	273,246,661	174,540,469	447,787,130
Other receivables	743,183	-	743,183
	511,771,097	**174,586,147**	**686,357,244**
Non financial assets			
Property, plant and equipment	2,230,159	2,902,660	5,132,819
Intangible assets	945,717	623,135	1,568,852
Other assets	3,352,448	767,306	4,119,754
	6,528,324	**4,293,101**	**10,821,425**
Total	**518,299,421**	**178,879,248**	**697,178,669**
Financial liabilities			
Due to banks	8,023,887	-	8,023,887
Due to customers	505,170,905	-	505,170,905
Derivative financial instruments	324,181	-	324,181
Borrowed funds	42,872,467	49,298,592	92,171,059
Subordinated loans	4,189	12,376,100	12,380,289
Other liabilities	9,158,098	-	9,158,098
Repurchase agreement	15,664,251	-	15,664,251
	581,217,978	**61,674,692**	**642,892,670**
Non financial liabilities			3,413,789
Deferred income	3,413,789	-	51,924
Tax payable	51,924	-	
	3,465,713	**-**	**3,465,713**
Total	**584,683,691**	**61,674,692**	**646,358,383**
Net	**66,384,270**	**117,204,556**	**50,820,286**

30. RISK MANAGEMENT

30.1 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 maximise 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; and
- (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.

30. RISK MANAGEMENT (CONTD.)

30.1 Introduction(contd.)

Risk Management Division(contd.)

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.

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 limitation standards as follows:

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

30.2 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 combining 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 guarantee. 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.

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.

30. RISK MANAGEMENT (CONTD.)

30.2 Credit risk (contd.)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (contd.)

	Note	Gross maximum exposure 2009 MNT '000	Gross maximum exposure 2008 MNT '000
Cash and balances with central bank			
(excluding cash on hand)	**11**	113,085,327	43,357,089
Due from banks	**12**	216,511,438	137,717,321
Derivative financial instruments	**13**	-	675,861
Financial investments - available-for-sale	**14**	1,026,696	26,588,980
Financial investments - held-to-maturity	**14**	118,518,578	-
Loans and advances to customers	**15**	505,298,994	447,787,130
Other receivables	**18**	1,065,595	743,183
Total		**955,506,628**	**656,869,564**
Contingent liabilities	**28**	63,578,275	30,104,551
Commitments	**28**	11,748,372	10,559,969
Total		**75,326,647**	**40,664,520**
Total credit risk exposure		**1,030,833,275**	**697,534,084**

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, reference should 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 which are related person as at 31st December 2009 was MNT 30,198 million (2008: MNT 53,137 million).

Apart from deposits and placements with other banks and financial institutions amounting to MNT195,162 million (2008: MNT72,922 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 2009 MNT '000	Gross maximum exposure 2008 MNT '000
Agriculture	6,199,095	13,014,124
Construction	49,583,201	44,003,154
Consumers	69,982,834	64,954,701
Education	6,087,277	2,942,145
Electricity and oil	24,820,421	27,756,268
Financial services	464,983,698	230,210,841
Healthcare	4,415,462	6,693,577
Home business	66,737	367,999
Hotel and restaurants	8,734,404	8,297,688
International organisations	14,701	126,700
Maintenance	3,264,543	4,020,945
Manufacturing	54,219,674	40,956,540
Mining and exploration	91,819,017	31,104,970
Public service	4,186,392	348,644
Real estate	21,300,503	20,525,827
Social services	2,039,588	1,824,077
Tourism	967,044	4,113,017
Transportation and communications	20,465,886	27,828,603
Wholesale and Retail	110,844,786	124,597,668
Other	11,511,366	3,182,076
	955,506,628	**656,869,564**

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) corporate lending: charges over real-estate properties, inventory, plant and equipment, machinery and vehicles;
(ii) small business lending: charges over real estate properties;
(iii) consumer lending: charges over automobiles and assignment of income; and
(iv) residential mortgages: mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and in respect of other corporate, small business and retail lending whenever appropriate 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.

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. The Bank does not occupy repossessed properties for business use.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset based on the Bank's credit rating system.

30. RISK MANAGEMENT (CONTD.)

30.2 Credit risk (contd.)

Credit quality per class of financial assets

	Note	Neither past due nor impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
		MNT '000	MNT '000	MNT '000	MNT '000	MNT '000
As 31st December 2009	12					
Due from banks		108,698,757	105,391,608	2,421,073	-	216,511,438
Financial investments	14					
- available-for-sale	14	-	837,370	-	189,326	1,026,696
- held-to-maturity		118,518,578	-	-	-	118,518,578
Loans and advance to customers	15					
Corporate lending	15	203,623,118	51,634,672	19,397,055	27,149,742	301,804,587
Small business lending	15	84,730,938	15,494,637	8,581,039	26,313,210	135,119,824
Consumer lending	15	5,124,689	285,838	282,091	6,028,526	11,721,144
Residential mortgages	15	17,714,879	6,807,803	4,354,016	9,126,522	38,003,220
Others		27,203,307	8,847,130	138,685	502,500	36,691,622
		338,396,931	**83,070,080**	**32,752,886**	**69,120,500**	**523,340,397**
Total		**565,614,266**	**189,299,058**	**35,173,959**	**69,309,826**	**859,397,109**

	Note	Neither past due nor impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
		MNT '000	MNT '000	MNT '000	MNT '000	MNT '000
As 31st December 2008						
Due from banks	12	53,437,686	82,270,072	2,009,563	-	137,717,321
Derivative financial instruments	13	675,861	-	-	-	675,861
Financial investments						
- available for sale	14	26,206,458	264,376	-	118,146	26,588,980
Loans and advance to customers						
Corporate lending	15	158,699,820	71,087,153	26,555,928	18,455,089	274,797,990
Small business lending	15	82,228,949	6,478,838	5,536,203	14,515,820	108,759,810
Consumer lending	15	11,762,042	1,932,010	503,064	5,070,370	19,267,486
Residential mortgages	15	19,508,192	10,433,963	1,909,846	7,968,424	39,820,425
Others	15	19,701,173	34,483	11,268	641,645	20,388,569
		291,900,176	**89,966,447**	**34,516,309**	**46,651,348**	**463,034,280**
Total		**372,220,181**	**172,500,895**	**36,525,872**	**46,769,494**	**628,016,442**

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

	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
At 31st December 2009					
Loans and advances to customers					
Corporate lending	7,122,020	5,163,447	6,545,392	4,945,313	23,776,172
Small business lending	11,983,176	1,158,567	1,499,881	3,270,018	17,911,642
Consumer lending	3,517,383	231,782	307,403	1,194,266	5,250,834
Residential mortgages	6,610,271	1,079,855	539,260	105,072	8,334,458
Others	333,086	169,414	-	-	502,500
	29,565,936	**7,803,065**	**8,891,936**	**9,514,669**	**55,775,606**
At 31st December 2008					
Loans and advances to customers					
Corporate lending	209,576	-	-	5,024,858	5,234,434
Small business lending	3,287,018	1,650,712	900,325	3,721,354	9,559,409
Consumer lending	2,075,727	900,875	468,413	1 623,502	5,068,517
Residential mortgages	6,041,683	1,250,686	356,831	319,224	7,968,424
Others	202,884	50,887	105,543	282,331	641,645
	11,816,888	**3,853,160**	**1,831,112**	**10,971,269**	**28,472,429**

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 2009 was MNT 374.48 billion (2008: MNT 64.80 billion). See 'Collateral and other credit enhancements' under Note 30.2 for the details of types of collateral held.

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

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

	2009 MNT '000	2008 MNT '000
Loans and advances to customers		
Corporate lending	11,212,951	39,680,401
Small business lending	12,831,423	7,887,485
Consumer lending	43,748	98
Residential mortgages	442,327	61,811
Others	77,843	207,423
	24,608,292	**47,837,218**

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.

30. RISK MANAGEMENT (CONTD.)

30.2 Credit risk (Contd.)

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 to customers 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.

30.3 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% (2008: 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:

	2009	2008
	%	%
31st December	51.7%	37.0%
Average during the period	44.8%	41.0%
Highest	57.2%	48.4%
Lowest	35.4%	30.9%

The table below summarises the maturity profile of the Bank's financial liabilities at 31st December 2009 and 31 December 2008 based on contractual undiscounted repayment obligations. See Note 29 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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 2009						
Due to banks	49,303,978	-	3,898,393	-	-	53,202,371
Due to customers	607,810,948	109,159,369	96,453,121	-	-	813,423,438
Borrowed funds	3,317,256	615,207	43,919,978	12,784,989	10,337,255	70,974,685
Subordinated loan	99,218	-	299,859	15,010,336	-	15,409,413
Other liabilities, excluding deferred income	12,691,167	-	-	-	-	12,691,167
Repurchase agreement	7,744,869	-	-	-	-	7,744,869
Total	**680,967,436**	**109,774,576**	**144,571,351**	**27,795,325**	**10,337,255**	**973,445,943**
At 31st December 2008						
Due to banks	1,433,962	6,617,388	-	-	-	8,051,350
Due to customers	293,933,168	168,407,351	58,596,199	-	-	520,936,718
Borrowed funds	70,000	41,244,010	3,203,919	46,071,469	7,593,527	98,182,925
Subordinated loans	-	259,983	257,192	14,012,903	-	14,530,078
Other liabilities, excluding deferred income	5,628,957	3,434,203	94,938	-	-	9,158,098
Repurchase agreement	15,664,251	-	-	-	-	15,664,251
Total	**316,730,338**	**219,962,935**	**62,152,248**	**60,084,372**	**7,593,527**	**666,523,420**

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

	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 MNT '000
At 31st December 2009						
Contingent liabilities	39,605,322	5,586,818	11,845,350	6,540,785	-	63,578,275
Commitments	958,842	1,575,120	3,342,960	5,861,097	10,353	11,748,372
Total	**40,564,164**	**7,161,938**	**15,188,310**	**12,401,882**	**10,353**	**75,326,647**
At 31st December 2008						
Contingent liabilities	8,912,340	6,842,336	8,950,248	5,399,627	-	30,104,551
Commitments	-	1,500	6,327,333	3,362,892	868,244	10,559,969
Total	**8,912,340**	**6,843,836**	**15,277,581**	**8,762,519**	**868,244**	**40,664,520**

30. RISK MANAGEMENT (CONTD.)

30.4 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 2009 and 31 December 2008.

Currency	Change in basis points	Sensitivity of net interest income MNT'000
At 31st December 2009		
USD	+120	(318,074)
MNT	+120	(384,602)
USD	-120	318,074
MNT	-120	384,602
At 31st December 2008		
USD	+120	(267,120)
MNT	+120	(378,571)
USD	-120	267,120
MNT	-120	378,571

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.

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
2009 - 31st December	99,715	104,379	163,116
2009 - Average Daily	149,305	153,118	212,716
2009 - Highest	205,868	238,618	317,353
2009 - Lowest	36,368	36,971	44,419
2008 - 31st December	22,428	24,945	45,826
2008 - Average Daily	89,659	92,635	113,761
2008 - Highest	199,972	229,880	227,862
2008 - Lowest	22,428	22,731	28,419

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:

30. RISK MANAGEMENT (CONTD.)

30.4 Market risk (Contd.)

Prepayment risk (Contd.)

	"Effect on net interest income" 2009 MNT 'mil	"Effect on net interest income" 2008 MNT 'mil
Loans and advances to customers		
Corporate	(537)	(636)
SME	(190)	(28)
Consumer	(54)	(91)
Mortgage	-	-
Others	(287)	-
	(1,068)	**(755)**

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.

31. RELATED PARTY DISCLOSURES

The Bank is controlled by Bodi International Co. Ltd. which owns 100% of the 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 Members of the Board of Governors have substantial financial interest.

	2009 MNT '000	2008 MNT '000
a) Loans and advances to related companies		
Bodi Automative Co.Limited (Fellow subsidiary)	2,340,000	2,315,363
Bodi Electronics Co.Limited (Fellow subsidiary)	718,965	1,115,650
Bodi Properties Co.Limited (Fellow subsidiary)	2,776,024	2,154,767
Sar Shine International Co.Limited (Fellow subsidiary)	1,928,249	-
Honka Log Home Co.Limited (Fellow subsidiary)	1,083,276	-
Mongol Leasing Co.Limited (Fellow subsidiary)	2,029,133	-
	10,875,648	**5,585,780**

The loans and advances to holding company and fellow subsidiaries were secured, bore interest rates from 10.68% to 24.00% (2008: 10.68% to 19.2%) per annum and are repayable within one year. The interest income received from such loans during the financial year amounted to MNT 806.69 million (2008: MNT 449.43 million).

		2009	2008
		MNT '000	MNT '000
b)	Deposits from related companies:		
	Holding company	355,311	10,985
	Fellow subsidiaries	1,769,709	2,345,783
		2,125,020	**2,356,768**

The deposits from the above related companies bore interest rates from 0% to 10.44% (2008: 1.20% to 13.20%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 35 million (2008: MNT120.39 million).

		2009	2008
		MNT '000	MNT '000
c)	Purchase of computers and software from		
	fellow subsidiaries	**191,273**	**511,899**

		2009	2008
		MNT '000	MNT '000
d)	Compensation of key management personnel		
Short-term employee benefits			
	Salaries	104,004	106,760
	Contribution to social and health fund	21,841	20,284
		125,845	**127,044**

e) Lease agreement with Bodi International Co. Limited

In November 2002, the Bank moved to its Head Office located at Sukhbaatar Square 3, Ulaanbaatar, Mongolia and in October 2009, the Bank opened a new Moscow Branch located at Bayangol District. These buildings are owned by the holding company, Bodi International Co. Limited.

The Bank entered into lease agreements for its Head Office and Moscow Branch for 5 years until 1 January 2014 and 1 October 2014 respectively. The bank prepaid the lease payment amounting to MNT3.9 billion and MNT885.60 million respectively in 2009. As at 31st December 2009, the balance of prepayment is MNT 3.22 billion and MNT841.32 million. Further details of the lease arrangements are disclosed in Note 28.

32. 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 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 the shareholder, return capital to the shareholder or issue new equity or equity related securities.

32. CAPITAL ADEQUACY (CONTD.)

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 6% (2008: 5%) and risk weighted capital ratio of at least 12% (2008: 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:

	2009	2008
Core capital ratio	10.91%	10.27%
Risk weighted capital ratio	**13.36%**	**12.83%**

	2009 MNT '000	2008 MNT '000
Tier I capital		
Ordinary shares	21,934,142	21,934,142
Retained earnings	42,108,598	28,939,010
Total Tier I Capital	**64,042,740**	**50,873,152**
Tier II capital		
Subordinated loans	**14,428,400**	**12,675,100**
Total capital /capital base	**78,471,140**	**63,548,252**

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

	2009		2008	
	Assets MNT '000	Risk Weighted MNT'000	Assets MNT '000	Risk Weighted MNT '000
%				
0	264,506,870	-	90,155,840	-
20	245,472,675	49,094,535	131,846,800	26,369,360
50	66,211,173	33,105,587	73,511,120	36,755,560
100	505,034,385	505,034,385	432,193,607	432,193,607
Total	**1,081,225,103**	**587,234,507**	**727,707,367**	**495,318,527**

33. 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.