GOLOMT BANK OF MONGOLIA

ANNUAL REPORT **2010**

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REPORT OF THE CHAIRMAN OF THE BOARD OF GOVERNORS

D.Bayasgalan
Chairman of the Board of Governors

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To our Shareholder, Esteemed Clients, Trusted Banking Correspondents, Business Partners and Valued Employees.

I am very pleased once again to report to you upon the results of the Bank's operations during 2010, our 16th year of continued successful business evolution.

Although, Mongolia experienced a severe winter, other key sectors of the economy continued their robust recovery from the challenges and contractions of late 2008 and early 2009. This was driven principally by the four main drivers of welcome increases in both mineral prices and export volumes augmented by the accelerated pace of development of our world scale mineral resources, most notably the Oyu Tolgoi gold and copper project, and the expansion of their ancillary support services and supply chains.

After a modest reversal in 2009, GDP resumed its traditional positive growth trajectory being officially recorded at a 6.1 per cent. increase which was manifest in record foreign exchange reserve levels. The continued progressive appreciation of the external parity of the Tugrug throughout the year reflecting renewed confidence in the economy and financial system with the fiscal deficit being constrained below 4 per cent. following the successful conclusion and exit from the IMF SPA.

Underpinned by such a favourable macro-economic background Golomt Bank achieved another year of sustained progress measured in both revenue and non-financial terms.

Once again we achieved record balance sheet growth with total assets increasing by MNT 561 billion (USD 446 million) or 55 per cent. to reach MNT 1.574 trillion (USD 1.25 billion) so that Golomt Bank reassumed its position as the largest bank in Mongolia, a position which we had voluntarily allowed to fall away during 2008 when we correctly anticipated the very sharp downturn in both global and domestic economies. This leading role is in turn reflected in the confidence which our depositors place in us through their selection of Golomt Bank as the largest recipient of deposits in the domestic banking system where we recorded an increase of 66 per cent. over the course of the year; very substantially in excess of the 41 per cent. increase in depository liabilities of the whole Mongolian banking system.

On the asset side, growth was equally well balanced with the portfolio expanding by MNT 279 billion (USD 222 million) or 55 per cent. while the system as a whole generated growth of only 25 per cent..

Of even greater importance to the achievement of our strategic goal of remaining the bank of choice for all participants in the Mongolian financial system than achieving growth in absolute terms, is the generation of soundly based balanced and sustainable growth. This paramount objective is reflected in robust balance sheet ratios with the loans to deposits ratio remaining below 60 per cent. (the strongest among all leading banks) demonstrating clear potential for sustained future credit expansion while the liquidity ratio remains at its customary leading level in excess of 50 per cent..

While we are gratified by the confidence reposed in the Bank by our clients which has resulted in us achieving the combined status of number one in deposits, loans and asset size we remain in no way complacent concentrating our key corporate focus upon retaining our perceived status as the country's best bank through offering a customer centric focus from which leadership growth will naturally follow.

Turning to the key measure of profitability, post tax profit rose by MNT 6.9 billion (USD 5.5 million) to reach MNT 20 billion (USD 16 million) while earnings per share rose to MNT 914, an increase of 52 per cent. over the result achieved during 2009 which itself (in marked contrast to many domestic and international banks) had constituted yet another year of record earnings.

Our organic profitability, entailing a return on average assets of 1.7 per cent. and a return on average equity of 26.6 per cent., fed through to a 31 per cent. increase in equity which was complemented by additional newly subscribed Tier 2 capital of MNT 28.7 billion (USD 22.9 million) to create a capital base of MNT 128 billion (USD 102 million) resulting in a weighted capital adequacy ratio of 13.5 per cent., more than 10 per cent. in excess of the stipulated regulatory minimum.

This reflected the injection in mid-year of the first USD 25 million tranche of a USD 35 million five year convertible subordinated loan facility subscribed on behalf of Abu Dhabi Investment Council, one of the world's leading sovereign wealth funds. This additional tranche of Tier 2 capital augments the similar long-standing relationship which we have enjoyed with our good friends from Credit Suisse since 2007. All of us associated with Golomt Bank are gratified that these two strategic investments represent the only direct equity related investments from any of the world's leading international commercial financial agencies in the capital structure of any Mongolian bank.

In reflection of the magnitude of their investment and the ongoing opportunities for mutually valuable synergistic development opportunities the Council nominated their Chief Investment Officer, Mr. Mark N. Cutis, as a member of the Board of Governors of the Bank. In addition, following the implementation of the provisions of The Banking Law 2010, we led the way in also welcoming to the Board of Governors as senior independent director, Dr. Unenbat Jigjid, a former long-serving Governor of The Bank of Mongolia who currently serves as Chief Executive Officer of the Mongolian Corporate Governance Centre and as Dean of the Department of Finance at the Institute of Finance and Economics. Upon behalf of my existing colleagues on the Board of Governors we welcome these new appointments from which we have already derived much wise counsel reflective of the wide-ranging financial expertise enjoyed by both our new members.

While increasing our team members significantly, we pioneered both the introduction of the First Pension Scheme (the first private pension programme launched in Mongolia) as well as a generous ESOP (Employee Share Option Plan) so as better to align the long-term interests and benefits of our valued employees with those of the Bank and its stakeholders while ensuring that they benefit from competitive levels of salaried compensation and performance related bonus.

In conclusion as we move forward into 2011 and the years beyond we can reflect with a degree of quiet confidence upon the sanguine prospects which Mongolia and its citizens now face. While the global economy and other regions continue to face material uncertainties, we in Mongolia, after lagging in economic development in prior years, now find ourselves at the epicenter of global growth benefitting from a juxtaposition of exceptional growth in regional economies which is likely to result in the creation of a virtuous cycle of expanding commodity exports and robust prices over the medium term.

This in turn is fuelling the exponential pace of development as we finally begin to achieve the world scale exploitation and environmentally sensitive monetization of our unique factor resource endowment.

Our focus remains exclusively upon Mongolia thus giving us unrivalled expertise and unique competitive advantage within our country through our ability to draw upon the resources of our major investors. While we remain acutely aware of the disparate challenges ahead and that growth will not always occur in linear fashion, in this seventeenth year of our incorporeal existence we reaffirm our commitment always to serve our nation and our clients to the very best of our abilities and judgement, thereby delivering sustainable value to all our stakeholders.

D.Bayasgalan
Chairman of the Board of Governors

REPORT OF THE CHIEF EXECUTIVE OFFICER

Capital increased by 63 per cent. to reach MNT 128 billion (USD 102 million) with Tier 1 capital constituting 66 per cent. reflecting an overall capital adequacy ratio of 13.5 per cent. and a Tier 1 ratio of 8.85 per cent..

John P.Finigan
Chief Executive Officer

To All Our Greatly Valued Stakeholders

It is indeed gratifying after the vicissitudes and turbulence of the two immediately prior years to be able to construct a review of a year in which the underlying momentum proved positive in terms of both global and domestic economies with recovery leading to renewed growth in output and investments.

The concerted global policy movement towards quantitative easing initiated at the height of the financial crisis has successfully underpinned the restoration of equilibrium in most major economies where growth surpassed expectations while world trade volumes have revived to surpass their pre-crisis level.

However the estimated 4 per cent. growth in global GDP for 2010 camouflages a progressive divergence into a three speed economy with the dynamic emergent market nations generating a strong bounce back with growth trending around the 6 per cent. level while the United States and Europe are lagging with sub-optimum rates of 3 and 2 per cent. respectively.

In the United States the recovery is softening with weakness in private sector job creation giving particular cause for concern while inflationary pressures remain very weak with core consumer price inflation below 1 per cent. and excessive housing inventory continuing to depress real estate prices.

European economies are moving divergently with Germany growing by 3.6 per cent. while Euro-wide GDP rose by only 1.7 per cent. against a background of growing fiscal crises in the peripheral states which are burdened with excess capacity and an urgent need for fiscal consolidation leading to growing unemployment.

In Asia the Japanese economy was deteriorating prior to the dreadful tsunami reflecting weak domestic demand putting downward pressure on prices and ongoing deflation against a similar background scenario of urgently needed fiscal consolidation.

Meanwhile the emergent market nations have powered forward with Brazil benefitting from firm commodity prices and India growing strongly on the back of robust domestic demand while in our two immediate neighbour nations, Russia's recovery to achieve 4.5 per cent. growth in the final quarter of the year has been underpinned by rising oil prices and China's stellar growth of 9.8 per cent. reflected massive stimulus and policy expenditure as the economy surpassed Japan to become the world's second largest.

Against this background Mongolia benefitted from its unique mineral factor endowment and favourable geographical location to achieve 6.1 per cent. growth in GDP, with final consumption amounting to 68 per cent. and investment to 41 per cent. with net exports constituting the balancing factor.

The early months of the year were fraught with considerable difficulty brought about by the terrible impact of the protracted zud upon the agricultural sector in the first half of the year. A winter of exceptional duration and unprecedented low temperatures wrought havoc among the herding community resulting in the loss of almost 20 per cent. of livestock and a commensurate sharp decline in the contribution of the agricultural sector. While we shared the concerns and distress of those so badly impacted by the zud it is gratifying to note that this most unfortunate natural phenomenon did not have any adverse impact upon the underlying business of the Bank.

As is more fully addressed in the immediately subsequent section of this report, exports increased by 54 per cent. to reach MNT 2.9 trillion (USD 2.3 billion) while imports increased by a similar 53 per cent. to reach MNT 3.3 trillion (USD 2.6 billion) resulting in a trade deficit of MNT 476 billion (USD 379 million) of which 40 per cent. constituted imports of capital equipment. Foreign direct investment rose dramatically from USD 570 million in 2009 to reach USD 1.57 billion, an increase of 176 per cent..

Meanwhile government revenues rose likewise by 54% (MNT 1.08 trillion = USD 860 million) to reach MNT 3.078 trillion (USD 2.45 billion) with expenditure rising to an almost matching MNT 3.076 trillion resulting in a modest fiscal surplus of MNT 2.2 billion in contrast to an originally forecast deficit.

These very positive underlying developments were augmented by the progressive strengthening of the Tugrug by 13 per cent. over the course of the year and fed through to a banner year for the banking sector in which Golomt Bank continued to play a dominant role with assets rising by MNT 561 billion (USD 446 million) to reach MNT 1.57 trillion (USD 1.25 billion). This 56 per cent. growth rate in assets materially surpassed the 41 per cent. growth rate recorded within the whole domestic banking system.

Deposit growth proved particularly resolute across both corporate and retail segments rising overall by 71 per cent., well above the 55 per cent. realized in the system, while loans grew by 56 per cent., which was more than double the systemic increase of 25 per cent.. This welcome growth in lending to support Mongolian enterprises was accomplished with the retention of the strictest of credit criteria and no compromise on credit quality as manifest in the reduction of the impaired credit portfolio from 4.4 per cent. in 2009 to 2.1 per cent. in 2010.

Capital increased by 63 per cent. to reach MNT 128 billion (USD 102 million) with Tier 1 capital constituting 66 per cent. reflecting an overall capital adequacy ratio of 13.5 per cent. and a Tier 1 ratio of 8.85 per cent..

The soundly structured progression revealed within the balance sheet fed into a commensurate improvement in profitability with another record year after in 2009, uniquely among Mongolia's leading banks, generating increased profits throughout the period of the financial crisis. This entailed an increase in post tax profit of 52 per cent. to reach MNT 20 billion (USD 15.95 million) reflecting a return on average assets of 1.7 per cent. and a commendable return on equity of 26.6 per cent.. In strengthening our Tier 1 ratio generated from operations by 31 per cent. this demonstrated once again our powerful capacity to generate equity organically.

The main drivers of revenue growth were a 24 per cent. increase in net interest income, reflective of the growing attractions of the Mongolian economy and its constituents, complimented by a 26 per cent. increase in non-asset based revenues which constituted 36 per cent. of operating income. These non asset based revenues rose by 26 per cent. to reach MNT 19.5 billion (USD 15.5 million) representing broadly based increases in card and transactional service fees as well as significantly improved earnings from customer driven foreign exchange. This favourable juxtaposition of revenue streams amply reflects the diversity of our customer-centric business mix.

Operating expenses grew by 28 per cent. (around half the rate of growth in assets and profitability) reflecting increased investment in property, IT and people as we continue to improve customer service and build future revenues, with staff costs accounting for 30 per cent. of the increase and 34 per cent. of the total. In turn this fed through to improved productivity with profit per average staff member rising from MNT 15.6 million in 2009 to MNT 20.7 million, a 33 per cent. increase.

We achieved a marginal improvement in the important cost income efficiency ratio which declined to 44 per cent. and the welcome but not fortuitous combination of economic recovery and assiduous management of impaired indebtedness resulted in net recoveries from our prudential provisioning policy while the impaired credit portfolio declined to a level of 2.1 per cent. of outstanding loans by the year end (2009: 4.4 per cent.).

Operating earnings were enhanced by this net recovery of provisions taken in prior years to the extent of MNT 983 million reflecting both assiduous management of impaired credit and the welcome recovery in trading conditions which was particularly marked in the SME sector.

In addition to those positive revenue achievements the Bank continued its pioneering role across a broad swathe of sectors designed to improve customer service, operating efficiency and ease of access to our multiple delivery platforms. Among the more notable achievements were:

- opening 18 new offices bringing the total to 70;
- increasing out ATM network by 40 per cent. to 100 outlets;
- introducing the world's first RMB card outside China;
- introducing MNT-EUR dual currency cards;
- introducing Mongolia's first bank-assurance services
- establishing direct representation in Seoul to offer our services to Mongolian expatriate workers;
- appointment as exclusive manager of the SME Development Programme under the auspices of the Ministry of Food, Agriculture and Light Industry;
- developing codified policies and procedures manuals addressing all aspects of our branch operations.

In terms of organization structure we created two new Divisions, Investment Banking and Information Technology, to reflect the evolving needs of our clients, as well as strengthening our specialist mining and minerals expertise towards the fulfillment of our strategic goal of becoming Mongolia's first universal bank. We constantly improve our IT systems architecture and security while augmenting our electronic banking functionality and ease of access as well as introducing "Verified by VISA" and "MasterCard Secure Code" e-commerce verification to offer the highest standards of integrity and security to all our valued cardholders, acquiring merchants and counterparty service providers.

In fulfillment of our established commitment to remain leaders in corporate citizenship we continue to dedicate a significant percentage of our revenues to support worthy causes in Mongolia focused particularly upon the alleviation of poverty, medical, educational and sporting causes.

We are playing in increasing role in support of the Government's programmes to promote growth and investment both domestically and internationally through the exclusive sponsorship of the Prime Minister's presentation on Listing of Mongolian Enterprises on the Hong Kong Stock Exchange, sponsorship of the Mongolian Economic Forum and Regional Investment Forums held in regional capitals across the nation and "Discover Mongolia", the leading event for the country's mining industry. In addition, in exclusive collaboration with The World Economic Forum and the Office of President Elbegdorj, we took the leading role in sponsoring the Responsible Mining Initiative and the PACI Initiative (Partnering Against Corruption Initiative) within Mongolia.

In the vital human resources area, which remains our most valuable asset, we welcomed over 200 new employees to the Golomt Bank family and expanded our commitment to professional training to enable them better to serve the ever increasingly complex financial requirements of our growing client base. In addition to generous increments to both salaries and performance related compensation we pioneered the introduction of the First Pension Fund which, as its name implies, is the first private sector pension fund established in Mongolia to augment the state pension benefits. In due course it is intended to offer this unique investment opportunity to our valued corporate clients as part of their overall employee benefit programmes.
In compliance with the provisions of The Banking Law 2010 we strengthened our corporate governance and risk control functions by appointing a new Risk Management Committee of the Board as well as augmenting the role of our long–standing Audit Committee to ensure optimum segregation and independence of the Bank's Internal Audit function and welcomed to the Board of Governors our two new distinguished members whose influence is already greatly valued.

In concluding this review of the year, I would express the appreciation of all of us in the Golomt Bank family to our valued clients and partner banks for the business which they entrust to us in ever increasing volumes; secondly, to all the citizens, companies, agencies and institutions throughout Mongolia for the confidence which they continue to repose in the Bank; thirdly to the Minister of Finance and Governor of The Bank of Mongolia and their officials for their supervision and guidance (whilst respectfully endorsing the aspirations of the Mongolian Economic Forum to eliminate unnecessary and unproductive bureaucratic regulation); fourthly, to the Board of Governors and our esteemed Shareholder, Bodi International L.L.C.; and, finally upon behalf of myself and my fellow management team members, to all our 1,100 plus loyal, diligent and dedicated staff members whose commitment and efforts are the core foundation upon which our continued success and future prosperity is built.

As we move forward into 2011 we continue carefully to assess prospects in the global, regional and domestic economy so as best to position Golomt Bank to respond effectively to the challenges envisaged and to capitalize prudently upon the opportunities identified. The overall picture remains stochastic with higher oil prices reflective of ongoing turmoil in the Middle East fuelling worries about the pace of recovery of the global economy. Rising output in North America is constrained by a liquidity trap while real estate prices, consumer confidence and the employment numbers reinforcing sentiment favouring a continuation of the the Federal Reserve's accommodative policy. Elsewhere the Euro area remains another source of stress with interest rates expected to rise as the turning point in the interest rate cycle is reached and the global post-crisis policy consensus reversed. This inflection point will create considerable dissonance and result in an effective two tier Euro community when interest rates are hiked in response to renewed inflationary concerns in the core nations while the weaker peripheral nations struggle to adjust through austerity programmes after excessive borrowing. The latter phenomenon is fuelling escalating concerns as to fiscal sustainability and widening contagion in the sovereign debt markets.

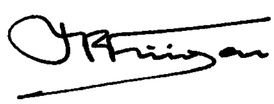
Within Asia, Japan's economy can be expected to be stimulated by a renewed round of policy expenditure to address the terrible devastation wrought by the tsunami. Meanwhile in our major trading partner, China, inflationary concerns are reasserting especially in the critical food and services sectors leading to an ongoing round of central bank tightening notwithstanding sharply lower PMI numbers. Nonetheless the impact of any slowdown in China's rate of growth upon Mongolia's economic prospects would be muted by the sheer differential of the two economies with China's GDP of USD 5.87 trillion generating incremental growth of USD 470 million (equivalent to more than 70 times Mongolia's GDP) even at a slower 8 per cent. growth rate.

We foresee a continuation of the firm commodity price cycle underpinning sustained growth in both volume and value of our exports albeit in non-linear form as fears of softer consumer demand in the industrialized nations claw prices back from recent record heights. Furthermore already robust output growth in Mongolia will be underpinned by the dramatic increase in capital expenditures as the Oyu Tolgoi copper, gold and silver mine experiences its peak year of construction (entailing capital expenditure of USD 2.3 billion alone) while the Government is making firm progress in the negotiations precedent to commissioning of the world scale Tavan Tolgoi metallurgical and coking coal resource. Golomt Bank is naturally honoured to be playing significant supporting roles in the financings for both these projects of seminal and national importance.

In parallel with these transformational extractive initiatives is the development of the transportation sector embracing both rail and road projects to create access to international markets, in tandem with major enhancement of both the energy and water infrastructure and rapid expansion of the construction industry with diversified projects encompassing commercial, residential, educational, medical, leisure and tourism sectors.

Against such an expansionary background macro-economic risks remain to be addressed in the shape of an expansionary fiscal policy further stimulated by rapidly increasing levels of foreign direct investment fuelling both inflationary concerns and consequential exchange rate volatility. Other concerns are rampant growth in money supply and accelerating extension of credit. Nonetheless whilst endeavouring to avoid the dangers of hubris we remain sanguine that the authorities will continue to succeed in their objective of steering our rapidly expanding economy safely through this dramatic growth trajectory while retaining equilibrium.

With such propitious prospects Mongolia and its citizens can look forward with confidence to a very bright future. With our highly trained and dedicated staff members and growing range of international affiliations Golomt Bank stands ready to assist all parties involved in that process with the most efficient delivery of the widest range of banking and financial services as we strive relentlessly to fulfil our mission of remaining the banking partner of choice for all your business in Mongolia.



John P.Finigan
Chief Executive Officer

ECONOMIC REVIEW

GDP AND EXTERNAL TRADE

After experiencing excessive turbulence attributable to underlying volatilities in both volumes and values of mineral exports during the economic crisis which impacted the economy in the two immediately prior years, 2010 marked the year when a welcome equilibrium returned with sound underlying growth in all major sectors save for agriculture.

Government finances were restored and foreign exchange reserves rebuilt to record levels of 6 times their crisis level driven by robust commodity prices and increased volumes of coal and iron ore exports. Confidence in the financial system and the currency returned with a 21 per cent. appreciation from the low of April 2009 while a modest fiscal surplus of MNT 2.2 billion was recorded instead of the forecast deficit.

In the first quarter of the year the agricultural sector was very badly impacted by unprecedented and prolonged adverse weather conditions resulting in the loss of over 12 million livestock which represented 28 per cent. of the total herd. The sector never recovered from this initial adversity in animal husbandry despite recording an increase of 11.5 per cent. in nominal terms to reach MNT 1.3 trillion (primarily as a result of increased production of potatoes, vegetables and fodder crops) resulting in a year-on-year decline of 16.8 per cent. in real terms with its sectoral contribution falling from 18 per cent. to 16 per cent..

The contribution of the agricultural sector had not been subject to such devastation in the early months of the year, then real GDP would have achieved close to double digit growth and been more reflective of the underlying momentum of the economy as reflected in the 10 per cent. growth rate achieved in industrial production.

GDP grew at an impressive 25.3 per cent. in nominal terms to reach MNT 8,255.1 billion but, after applying the deflator and a number of unpublished basis adjustments, was officially recorded at 6.1 per cent. in real terms, a welcome reversion from the overall decline of 1.3 per cent. recorded in 2009.

Consumption accounted for 68 per cent. of 2010 GDP (up 20 per cent. from 2009) while investment made up 41.4 per cent. (up 54 per cent. over the year), with net exports of 9.4 per cent. (MNT 790 billion), up 65 per cent. from their 2009 level constituting the compensating factor.

Gross Domestic Product Growth (by Sector)

	2006	2007	2008	2009	2010
GDP, in nominal terms (MNT billion)	4,027.6	4,956.6	6,555.6	6,590.6	8,255.1
Nominal GDP growth	32.4%	23.1%	32.3%	0.5%	25.3%
Real GDP growth	8.6%	10.2%	8.9%	-1.3%	6.1%
GDP Sectoral Growth:					
Agriculture, Forestry & Fishing	6.5%	14.4%	4.7%	3.6%	-16.8%
Mining & Quarrying	5.3%	1.1%	-1.6%	5.8%	6.3%
Manufacturing	12.3%	27.5%	2.7%	-9.0%	11.3%
Electricity, Gas, Steam & Air conditioning supply	3.5%	6.2%	8.1%	6.3%	5.7%
Water supply	3.8%	6.5%	8.7%	4.8%	4.8%
Construction	4.1%	7.2%	-13.8%	-34.0%	15.6%
Wholesale & Retail trade	14.3%	5.5%	15.0%	-11.8%	23.4%
Transportation & Storage	11.0%	25.2%	19.3%	8.0%	9.1%
Hotels & Restaurants	8.8%	14.7%	5.8%	-3.4%	6.9%
Information & Communications	10.7%	24.2%	19.0%	7.5%	8.8%
Financial & Insurance activities	-3.0%	19.5%	30.4%	-15.6%	-31.5%
Real estate activities	4.0%	-0.3%	8.3%	8.4%	-3.5%
Professional, Scientific & Technical activities	6.3%	-12.1%	62.5%	11.1%	-3.7%
Public administration & Defence	-0.5%	3.4%	3.1%	6.5%	0.9%
Education	3.5%	0.9%	6.3%	4.2%	2.2%
Human health & Social work activities	8.3%	9.4%	4.7%	2.9%	0.4%
Net taxes on products	23.0%	6.8%	17.2%	-18.0%	54.2%

Source: National Statistical Office

Industrial production reached MNT 4.09 trillion (USD 3.25 billion) or 31 per cent. of GDP, within which mining and quarrying increased by 10.1 per cent., while manufacturing rose by 11.4 per cent. and electricity and gas rose by 5.8 per cent..

Mining and quarrying production was driven by increases in coal and crude oil production of 91.8 per cent. and 16.7 per cent., respectively whereas the increase in manufacturing was attributable to food and iron production of 24 per cent. and 26.9 per cent., respectively.

Mining and quarrying generated 69.4 per cent. of industrial production, up 4 percentage points over the year while manufacturing and electricity and gas production constituted 21.5 per cent. and 9.1 per cent., respectively.

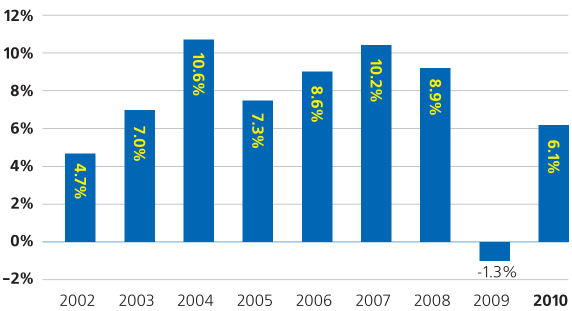
With the exception of both gold and copper production, all major mineral products exhibited remarkable growth in volume terms: coal production reached 25.2 tonnes increasing by 92 per cent. with iron ore increasing by 132 per cent. to 3.2 million tonnes, while crude oil extraction rose to 2.2 million barrels, up 16.7 per cent.. Coal exports increased by 134 per cent. from 7.1 million tonnes in 2009 to a level of 16.6 million tonnes while increasing in value by 186.5 per cent..

While copper production volumes remained virtually static, registering a modest 2 per cent. decline, in value terms exports increased by 53.5 per cent. rising to USD 770.6 million. Gold production statistics showed a decline of 38 per cent. attributable to both the run down new extraction from the Boroo gold project and doubtless influenced by the pending abolition of the Windfall Tax with effect from January 2011.

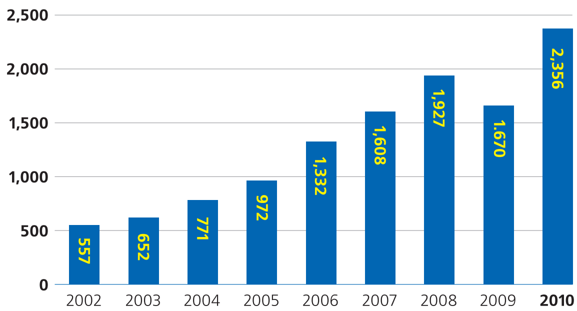
Growth in the manufacturing sector again proved stochastic with significant declines in the production of food products including meat while recording increases in the production of most non-food products.

As for the food sector, production of beef was down 37.4 per cent. to 5,800 tonnes while that of mutton rose by 56 per cent. to 2,900 tonnes. Output of highest and first grade wheat flour rose 54 per cent. and 34.3 per cent. to reach 33,500 tonnes and 97,600 tonnes respectively.

Real GDP Growth (%)



GDP per capita (USD)



Source: National Statistical Office

External trade

External trade turnover reached USD 6.2 billion, up 53.5 per cent. over the year with exports of USD 2.9 billion, up 53.8 per cent. and imports of USD 3.3 billion, up 53.3 per cent.. As a result, the trade deficit increased by 50.1 per cent.(USD 126.4 million) to USD 379 million, equal to 9.4 per cent. of GDP, up from 7.3 per cent. in 2009.

Mineral exports accounted for 80.8 per cent., while textile products accounted for 7.5 per cent., and precious metals for 6.2 per cent. of the total. Within the minerals sector exports of coal and iron ore increased 2.9 times and 2.8 times respectively, while exports of unwrought gold declined by 42 per cent.. Coal exports increased by 134 per cent. from 7.1 million tonnes in 2009 to a level of 16.6 million tonnes while increasing in value by 186.5 per cent. with the corresponding figures for iron ore being 3.5 million tonnes and gold being 5.1 tonnes. For the first time coal surpassed copper as the country's leading export commodity, a phenomenon which is expected to continue over the next two years while average prices achieved on coal exports are expected to rise as beneficiation increases through the construction of washing plants and improvements in the transport infrastructure.

China continues to dominate Mongolia's export flows with an increase to 84.9 per cent. from 73.9 per cent. in 2009 while exports to Canada, our second largest export partner, declined from 7.8 per cent. to 4.9 per cent..

Total Exports (USD million)

	2009		2010		2009–2010 %	
	Value	Volume	Value	Volume	Value	Volume
Coal (000 tonnes)	306.3	7,113.2	877.6	16,635.1	187%	134%
Copper concentrate (000 tonnes)	501.9	587.0	770.6	568.7	54%	-3%
Iron Ore (000 tonnes)	88.8	1,598.1	250.9	3,539.3	183%	122%
Gold (tonnes)	308.5	10.9	178.3	5.1	-42%	-54%
Cashmere (tonnes)	160.0	5,199.9	173.7	4,080.4	9%	-22%
Crude oil (000 barrels)	115.6	1,938.5	154.9	2,078.7	34%	7%
Total Exports	**1,885.4**		**2,899.2**		**54%**	

Source: National Statistical Office

Of the total imports, 33 per cent. emanated from Russia, 31 per cent. from China (boosted by an increase in import taxes levied upon vehicles) and 6 per cent. and 5.6 per cent. from Japan and South Korea, respectively. At the products level, import of diesel was up 46 per cent. (reflecting much greater use for transportation and electricity generation) while imports of petroleum increased by 3.2 per cent.. Continuing the trend, imports of trucks rose by 282 per cent. while imports of cars rose 132 per cent.. In the food sector imported flour and flour products, alcohol drinks, sugar, and rice predominated. Overall, mineral products (principally oil) accounted for 23 per cent., machinery and equipment made up 21 per cent., and transportation vehicles accounted for 19.4 per cent. of total imports. The balance was fairly evenly distributed among food products, chemical products, base metals and products of vegetable origin.

Total Imports (USD million)

	2008	2009	2010	'08-'09 %	'09-'10 %	Contribution
Mineral products	964	570	759	-41%	33%	23%
Machinery, equipment & Electric appliances	606	424	686	-30%	62%	21%
Transport vehicles & Spare parts	459	272	636	-41%	134%	19%
Food products	231	178	241	-23%	35%	7%
Chemical & Chemical industry products	151	128	206	-15%	61%	6%
Base metals & Articles	267	165	203	-38%	23%	6%
Plastics, rubber & Articles	84	66	110	-21%	66%	3%
Vegetable origin products	160	98	89	-39%	-9%	3%
Total Imports	**3,245**	**2,138**	**3,278**	**-34%**	**53%**	**100%**

Source: National Statistical Office

STATE BUDGET

Firm export prices for most mineral exports fed through to a positive outcome from the fiscal standpoint with the generation of a modest surplus of MNT 2.2 billion with expenditures and net lending of MNT 3,076.3 billion and revenues and grants of MNT 3,078.4 billion as government spending was effectively constrained in the early months of the year before being loosened in tandem with revenue inflows.

The 2011 budget adopts a more accommodative stance predicated upon still firm commodity prices with average copper and gold exports of USD 8,425 per tonne and USD 1,250 per ounce respectively.

Total revenues and grants are projected to rise by 7.3 per cent. to reach MNT 3,305 billion while expenditure and net lending is forecast to rise by 32.8 per cent. to MNT 4,084 billion (equivalent to 52 per cent. of GDP) resulting in a budget deficit of MNT 780 billion or 9.9 per cent. of GDP.

Within the overall balance, mining related tax revenues are projected to decline in proportionate terms to 29.2 per cent. in 2011 from 32.3 per cent. in 2010 due to the repeal of the former windfall tax of 68 per cent. on gold and copper prices with effect from 1st January 2011. The projections entail a contribution of MNT 164.6 billion from export revenues to the Stabilization Fund while on the expenditure side, the Government projects disbursement of MNT 805.2 billion to the Human Development Fund reflecting a 29 per cent. increase in social security expenditures.. The 2011 budget is considered as consumption supportive rather than production supportive and has therefore generated widely based expectations of a demand surge leading to both higher import volumes and higher consumer price inflation.

Fiscal Budget (MNT billion)

	2009	2010	2011*	'09-'10 %	'10-'11* %
Total Revenue & Grants	1,994.0	3,078.4	3,304.6	54%	7%
Tax Revenue	1,620.5	2,673.6	2,897.4	65%	8%
Non-tax Revenue	352.1	362.3	395.3	3%	9%
Capital Revenue	2.3	8.0	3.3	246%	-58%
Grants & Transfers	19.1	34.6	8.6	81%	-75%
Total Expenditure & Net Lending	2,336.6	3,076.3	4,084.1	32%	33%
Wages & Salaries	575.9	650.6	789.5	13%	21%
Goods & Services	394.2	543.2	635.9	38%	17%
Interest Payments	29.6	41.9	38.2	42%	-9%
Subsidies & Transfers	788.4	1,035.5	1,682.8	31%	63%
Capital Expenditure	460.6	564.7	844.9	23%	50%
Net Lending	87.9	240.4	92.8	173%	-61%
Balance	-342.6	2.2	-779.5		
Balance/GDP %	-5.4%	0.0%	-9.9%		
Total Expenditure/GDP %	37.1%	42.9%	52.1%		
Tax burden %	25.7%	37.3%	37.0%		

Source: National Statistical Office

INFLATION & EXCHANGE RATE

Inflation

Inflation measured by the consumer price index (CPI) outturned at 13 per cent. year-on-year, in which prices of food and non-alcoholic beverages increased 18.6 per cent.; those of housing, water, electricity and fuel by 12.7 per cent. while education rose by 18.8 per cent..

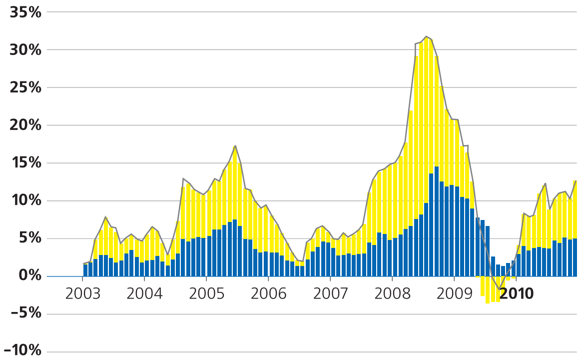
The year can be divided into three time periods when assessing the underlying factors impacting upon inflation. The first period covered the first five months of the year during which a shortage of meat supply caused inflation to reach 10.6 per cent. year-to-date.

The second period was the ensuing two months of June and July, during which CPI abated by 4.3 per cent. reflecting successful measures by the Government to augment meat supplies. The final period consists of the remaining five months of the year when the inflation rate rose to 11 per cent. by November before rising again to reach 13 per cent. by year end, again reflecting pressures on meat supplies.

While the final year-on-year inflation statistics out-turned at 5 per cent. higher than The Bank of Mongolia's stipulated target of 8 per cent., it is noteworthy that 60 per cent. of inflation was attributable to increased food prices which in turn reflected to a high degree the impact of exogenous forces when 45 per cent. of foodstuffs are imported.

Looking forward, demand side inflationary pressures are expected to persist while being only partially ameliorated by further appreciation of the Tugrug reflecting robust export earnings and continued high levels of foregn direct investment inflows.

Inflation Decomposition



Others %
Food inflation
Inflation

Source: National Statistical Office

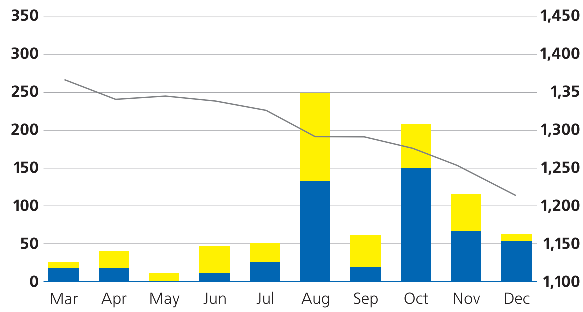
Inflation rate

	2009	2010
Food & Non-alcoholic beverages	0.4%	18.6%
Alcoholic beverages & Tobacco	20.2%	4.2%
Clothing footwear & Cloth	10.9%	10.5%
Housing, water, electricity & Fuels	0.6%	12.7%
Furnishings & Household equipment	9.2%	6.6%
Health	9.7%	1.6%
Transport	1.4%	1.3%
Communication	4.8%	14.6%
Recreation & Culture	4.7%	2.4%
Education	9.9%	18.8%
Restaurants & Hotels	11.1%	12.8%
Miscellaneous goods & Services	14.1%	4.2%
CPI	**4.2%**	**13.0%**

Exchange Rate

The exchange rate of the Tugrug against the USD appreciated progressively throughout the year moving from an opening level of 1,444 to a closing rate of MNT 1,257 = USD 1 by the year end entailing aggregate strengthening of 13 per cent.. The stabilization of the exchange rate after the volatility experienced in the two prior years has been accompanied by a rise in foreign currency reserves of The Bank of Mongolia to a record high level of USD 2.3 billion by year end.

USD Auction Results *(millions)*



USD amount bought by BOM (left axis)
Didn't buy
Exchange rate (right axis)

The flexible exchange rate regime continues and the foreign exchange auction process functions effectively with The Bank of Mongolia intervening only sporadically. During the course of the year the commercial banks offered USD 1.02 billion to The Bank of Mongolia through the foreign exchange auction mechanism while the Central Bank purchased USD 585 million or 57 per cent. of the volume tendered.

Over the course of the year the exchange rate against European euro (EUR), Chinese Yuan (CNY), Russian rouble (RUB), Japanese Yen (JPY) and United Kingdom pound (GBP) appreciated by 19.7 per cent., 10 per cent., 13.3 per cent., 1.5 per cent. and 15.1 per cent. respectively.

The Bank of Mongolia continues to run a tight monetary policy retaining the policy rate at the relatively high level 11 per cent. established since May 2010. This has contributed to the modulation of credit creation thereby helping constrain consumption. Within the scope of monetary policy, inflation is targeted to be restrained at no higher than 10 per cent. in order to stabilize prices while constraining the impact of negative cyclical forces and sustaining output and job creation. There appears little prospect of any reduction in the policy rate so long as inflation rates remain above their targeted objective.

BANKING SYSTEM

Against this background of sound macro-economic progress the banking sector continued to exhibit robust growth with total assets rising by 41 per cent. from MNT 4.42 trillion (USD 3.06 billion) to MNT 6.25 trillion (USD 4.97 billion) reflecting a monetization rate of 76 per cent. of GDP.

Total deposits in the system rose by MNT 1.61 trillion equivalent to 55 per cent. from MNT 2.92 trillion (USD 2.02 billion) to reach MNT 4.53 trillion (USD 3.6 billion) while net lending rose more moderately by 25 per cent. from MNT 2.4 trillion (USD 1.66 billion) to reach MNT 2.99 trillion (USD 2.38 billion) resulting in an aggregate systemic loans to deposits ratio of 66 per cent. in contrast to the level of 82 per cent. in December 2009.

Non-performing loans in the system recorded a fall from MNT 432 billion (USD 326 million) to MNT 217 billion (USD 173 million) by the year which entailed a systemic NPL ratio of 7 per cent..

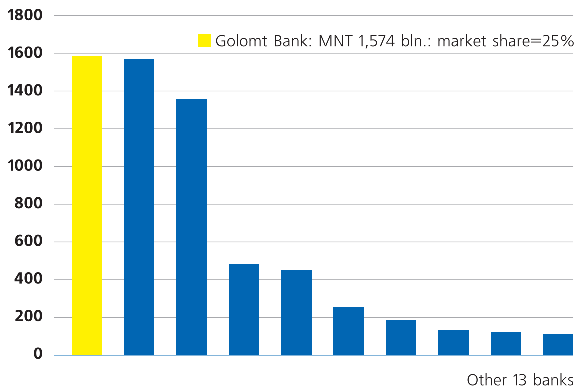
Over the course of the year, M2 increased by 62.5 per cent. reaching MNT 4.68 trillion (USD 3.72 billion) but still constituting only 57 per cent. of GDP, up from 44 per cent. in 2009.

Main Indicators of the Banking System

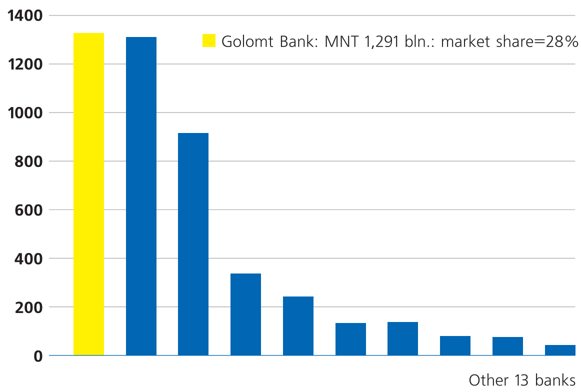
	2008	2009	2010	'08-'09 %	'09-'10 %
# of banks	16	15	14		
# of State owned bank	0	1	1		
Banking System (MNT billion)					
Total Assets	3,650	4,422	6,246	21%	41%
Total Loans	2,715	2,722	3,284	0%	21%
NPL/Total Loans (%)	7.1	9.4	7.0		
Total Deposits	2,269	2,917	4,530	29%	55%
M2 money supply (MNT billion)	2,270	2,880	4,680	27%	62%
M1 money supply	647	651	1,158	1%	78%
Quasi money	1,623	2,229	3,522	37%	58%
# of Non-bank Financial Institutions	132	177	187		
Stock market Capitalization (MNT billion)	516	621	1,374	20%	121%
M2/GDP %	34.6%	43.7%	56.7%		
Total Assets/GDP %	55.7%	67.1%	75.7%		
Total Loans/GDP %	41.4%	41.3%	39.8%		
Total Deposits/GDP %	34.6%	44.3%	54.9%		
Total Capital/GDP %	5.2%	3.5%	4.6%		

Source: National Statistical Office

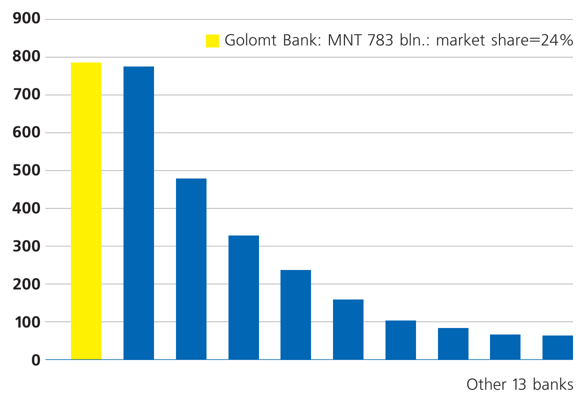
Total Assets (MNT billion)



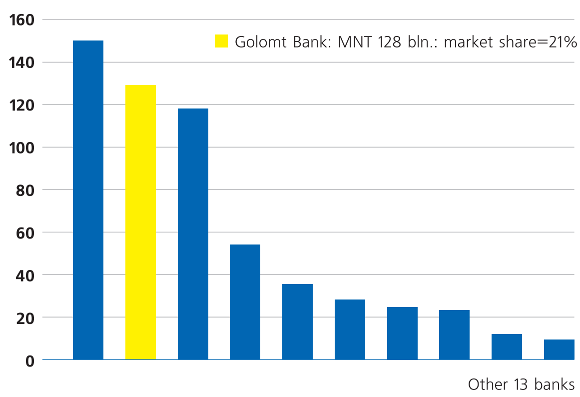
Total Deposits (MNT billion)



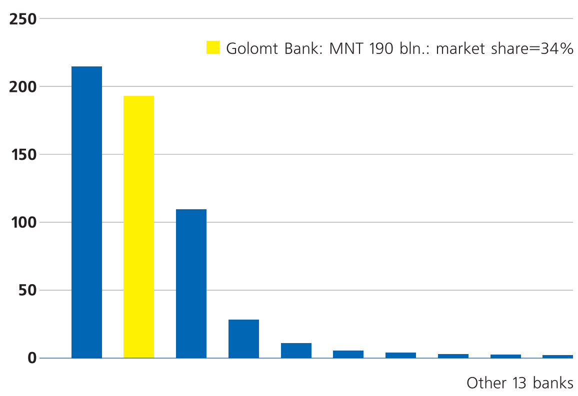
Total Loans (MNT billion)



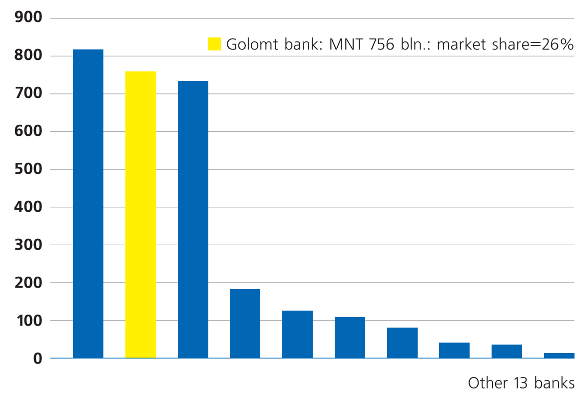
Total Capital (MNT billion)



Total Deposits with Foreign Banks and Financial Institutions (MNT billion)



Liquid Assets (MNT billion)



MONGOLIAN STOCK EXCHANGE

The MSE Top 20 Index is comprised of the leading companies by both market capitalization and daily average turnover and is reconstituted every six months based upon market activity during the prior half year.

MSE Top 20 index: 2010

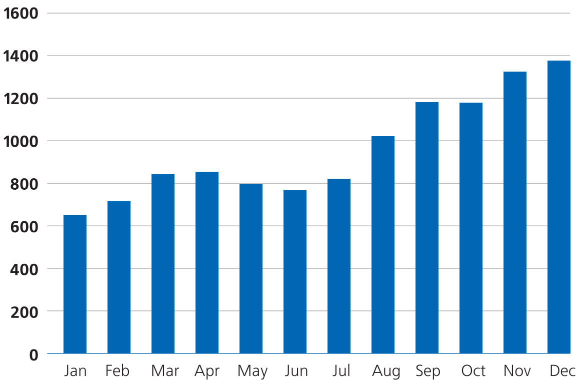
With an increase of 136 per cent. in the MSE Top 20 Index during 2010, the MSE produced the highest rate of growth in the world in contrast to the MSCI Frontier and MSCI EM Asia indices which gained 17 per cent. and 13 per cent. respectively.

During 2010 the Top 20 Index rose from its opening level of 6,189.9 to peak at 15,040.0 before ending the year at 14,759.8.

Two of the largest trades in the history of MSE were carried out in 2010. 726.1 thousand and 2.9 million block shares were traded on 8th April and 2nd November respectively both relating to shareholdings in Baganuur Mines.

Out of the 336 listed companies, 51 are state owned while 22 companies were delisted in 2010, and only two companies launched additional public offerings of their shares.

Market Capitalization



Total market capitalization of the 336 listed companies reached MNT 1.37 trillion (USD1.09 billion) by year end from the opening equivalent of MNT 642.5 billion (USD 495.1 million). The year end market capitalization of MNT 1.37 trillion equates to 16.6 per cent. of GDP, 2.2 times higher than the previous year.

The total value of transactions conducted on the exchange reached MNT 92.9 billion (USD 73.9 million), with settlement of stock trades equaling MNT 62.9 billion and government bonds MNT 30 billion. Compared to the previous year stock trading volume increased by MNT 39.7 billion (171.1 per cent.).

Average transaction volumes per day were MNT 367 million (USD 292,000), almost three times the 2009 average size. The average price of one share was MNT 974.6 (77 U.S cents), up by 278 per cent. from the end of 2009.

ORGANIZATIONAL DEVELOPMENT

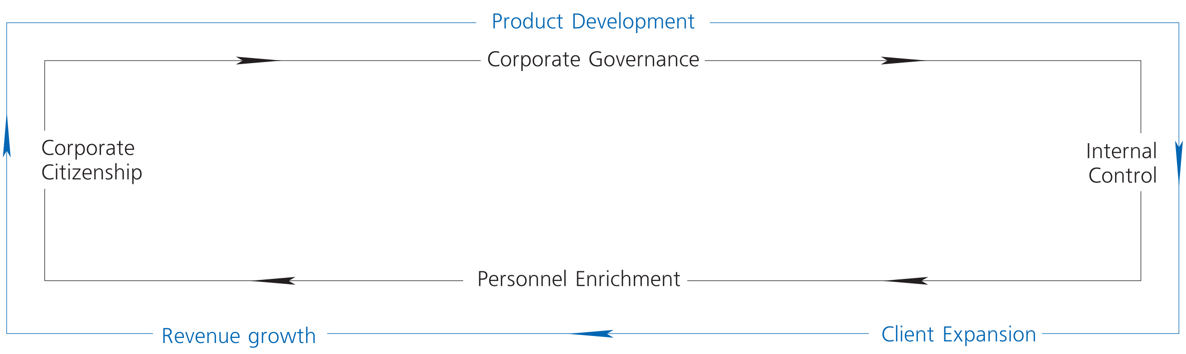
VISION AND MISSION

Vision

To be the market leader in Mongolia respected for our professionalism, integrity and intrinsic strengths while operating at the highest level 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 level of service standards.



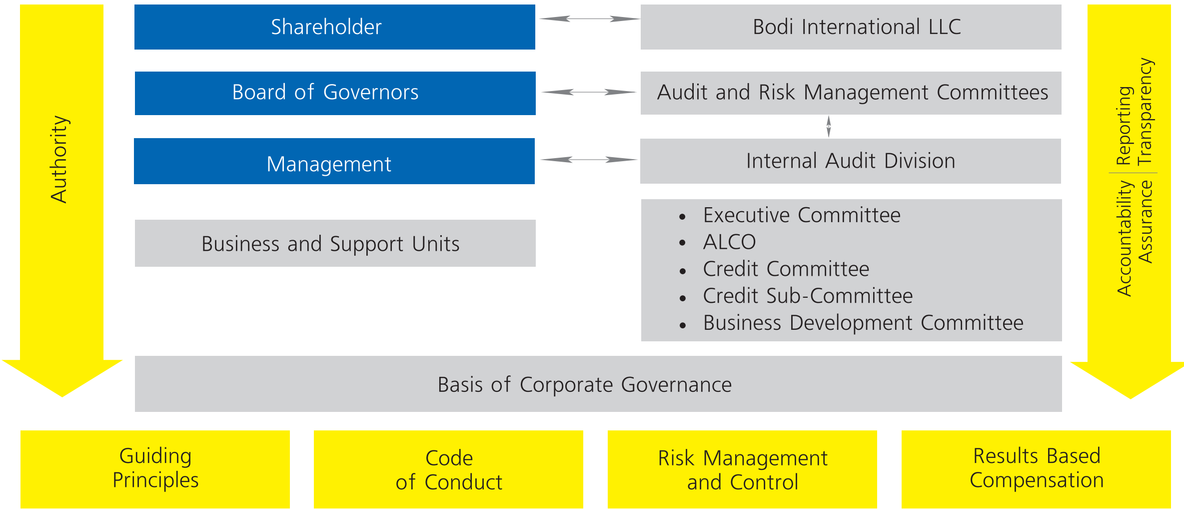
CORPORATE GOVERNANCE

As a leading private sector institution with no legacy of state ownership, Golomt Bank has always aspired to the highest standards of sound corporate governance, total transparency and full adherence to International Financial Reporting Standards. In increasing the composition of the Board of Governors to five members, and appointing an independent member, the Bank continues to set the highest standards of corporate governance in total compliance with the requirements of the Banking Law 2010 and The Bank of Mongolia regulations.

Following the promulgation of the Banking Law 2010, the Bank undertook a fundamental reappraisal of its approach to Corporate Governance. As a result the Bank's Charter, Procedures for the Board of Governors, Policy Statement on Corporate Governance, Rules of Shareholder's Meeting and Procedures for Addressing Conflicts of Interest were all revised and reissued.

In addition a new committee of the Board, the Risk Management Committee, was established while the role and responsibilities of the long-standing Audit Committee were enhanced with new or strengthened and revised Charters for both Commmittees

Corporate Governance Structure



Shareholder:

BODI INTERNATIONAL L.L.C.

Golomt Bank L.L.C. is a limited liability company incorporated in Mongolia with a sole Shareholder, Bodi International L.L.C., also incorporated in Mongolia.

Bodi International was founded in 1993 with equal 33.3 per cent. shareholdings held by three families, Bold, Bayasgalan and Zorigt. The three founding families still retain 100 per cent. of the equity. Golomt Bank was established in 1995 as a wholly owned subsidiary and remains so to the present day.

The mission of the Bodi Group is to be the premier diversified industrial and trading company recognized for its seminal contribution to economic and social development in Mongolia through its superior standards of execution innovation and professionalism. Through its organizational structure it adheres to the highest standards of corporate governance and remains true to the vision of its founders in eschewing any involvement with alcohol, tobacco or other influences which could be detrimental to Mongolian society.

Since its foundation the Bodi Group has grown into a broadly diversified network of businesses built around eight key business sectors:

- Banking and Finance;
- Real Estate;
- Engineering & Construction;
- Trading;
- Mining;
- Agriculture;
- Media;
- Entertainment.

The Group has over 2,300 employees and comprises 18 operating subsidiaries and 8 joint ventures with leading international partners.

Golomt Bank remains by far the largest individual component of the Group.

Bodi International L.L.C.'s financial statements are audited in accordance with International Financial Reporting Standards by Independent Auditors KMPG Samjong Accounting Corp.

Financial Highlights

USD (000's)	2008	2009	2010
Total Assets	600,972	763,515	1,349,029
Shareholders' Equity	55,440	59,535	104,701
Sales	83,019	80,239	124,225
Operating Profit	16,667	16,421	22,292
Net Profit after Tax	10,700	10,618	21,475

Board of Governors

The Board of Governors is appointed by the Shareholder and consists of five members who have extensive banking and business experience. In 2010, the Board of Governors was expanded by the admission of two members who also have extensive banking business experience: Mr. Mark N.Cutis, Chief Investment Officer, Abu Dhabi Investment Council, one of the world's major sovereign wealth funds, and Dr. J.Unenbat, a former Governor of The Bank of Mongolia and currently CEO of the Mongolia Corporate Governance Development Center (which provides advanced corporate governance training, consulting and advocacy services with the aim of developing corporate governance in Mongolia) as well as Dean of the Department of Finance at the Institute of Finance and Economics. Dr. Unenbat serves in the capacity of an Independent Director.

Board of Governors

From left: M.Zorigt, L.Boldkhuyag, D.Bayasgalan, Mark N.Cutis, J.Unenbat

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 management of the relationship with the External Auditors.

The Internal Audit Division is structured independently of the Bank's executive management in accordance with the Banking Law 2010. Through the Audit Committee the Board of Governors is now responsible for all aspects of the Internal Audit Division's structure, budget, policies, management and employees as well as their compensation.

Risk Management Committee

The Risk Management Committee is appointed by the Board of Governors and 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 financial and operational results, the Bank has a highly professional and experienced management team, some having served since its inception and early years. The Organization Structure chart reflects the composition of the management team with the Chief Executive Officer and Chief Operating Officer supported by Vice Presidents, Directors of Divisions and Departmental Heads.

In 2010, Mr. G. Ganbold, our long-serving Chief Operating Officer, received the prestigious gold medal award of 'The Best Manager in the Banking and Finance Sector' from the Mongolian Management Association.

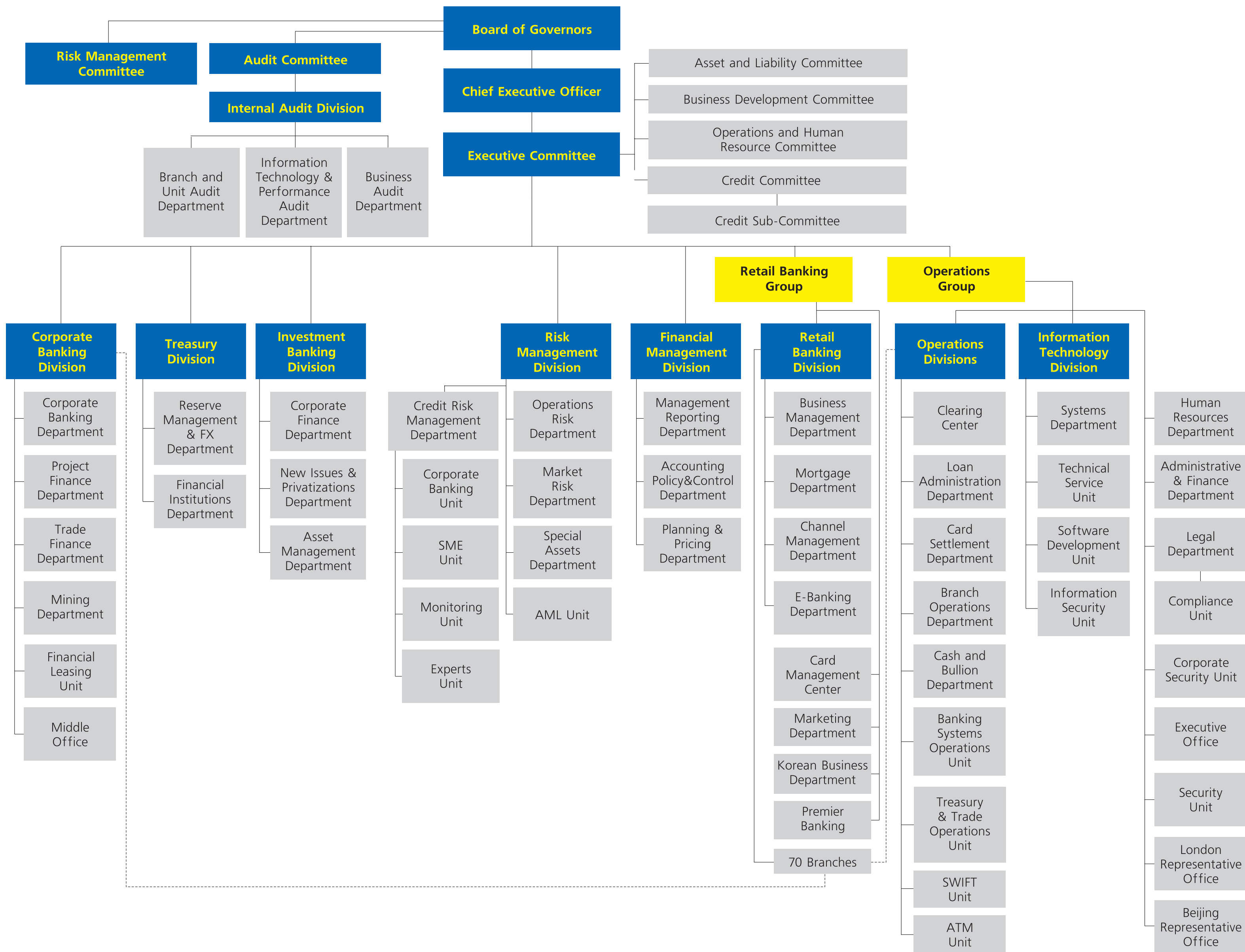
ORGANIZATION STRUCTURE

In 2007 the Bank introduced a wholesale reform programme to implement a comprehensive revised Organization Structure. Reflecting the Bank's fundamental objective of remaining a customer-centric organization the overall structure has been subjected to progressive improvement throughout the intervening years.

As part of this ongoing process of improvement and to reflect a number of changes introduced by the Banking Law 2010, the following important structural enhancements were introduced during the year:

- Internal Audit Division was sub-divided into three additional departments: Branch and Unit Audit Department, Information Technology and Performance Audit Department and Business Audit Department;
- strengthening the capacity of Credit Risk Department within Risk Management Division to expand its functions and control and review roles;
- upgrading the former Investment Banking Department to Divisional status with three departments: Corporate Finance, New Issues and Privatizations, and Asset Management;
- upgrading the former Information Technology Department to Divisional status sub-divided into four elements: Information Technology Division Systems, Technical Services, Software Development and Information Security; and
- establishing a new E-Banking Department within the Retail Banking Division in order to increase e-service channels and strengthen electronic banking services while ensuring the very highest levels of security.

ORGANIZATION STRUCTURE



MANAGEMENT TEAM

G.Ganbold
Executive Vice President &
Chief Operating Officer

M.Chimegmunkh
Vice President & Director
Financial Management Division

G.Gankhuyag
Vice President & Director
Treasury Division

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

M.Chingun
Vice President & Director
Risk Management Division

B.Enkhtuya
Vice President & Director
Retail Banking 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	
	Mark N. Cutis	
	J.Unenbat	
Audit Committee	**B.Molomjamts**	C.P.A. Chairman
	Mark N. Cutis	
	B.Shinejargal	C.P.A. Secretary
	B.Tamir	
	J.Unenbat	
Risk Management Committee	**L.Boldkhuyag**	Chairman
	M.Zorigt	
	J.Unenbat	
	John P. Finigan	
	M.Chimegmunkh	
	M.Chingun	Secretary
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
	B.Enkhtuya	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 Division
	D.Batbileg	Director Card Management Center

HUMAN RESOURCES

The main factors underlying the Bank's ongoing successful development are the dedication, professionalism and productivity of all our employees. In 2010, the Bank's Human Resources policy focused on the development of a stimulating and enjoyable working environment, which delivers the highest levels of productivity and efficiency through the ongoing motivation and strengthening of the professional skills of all levels of employees.

At the end of the year the Bank had 1,068 employees, of which 201 were newly employed during the course of the year. Sixty one per cent. of the total employees are in front line delivery positions throughout our 70 branches. The other 39 per cent. are assigned to the Head Office and support functions.

Human Resource Indicators

	2009	2010
Number of Employees	**867**	**1068**
Branches	60%	61%
Head Office	40%	39%
Gender ratio (Male/Female)	**30–70**	**30–70**
Offices	23-77	21-79
Head Office	41-59	40-60
Middle management	45-55	45-55
Senior management	50-50	70-30
Professional Qualifications		
Bachelor's degree	78%	76%
Master's degree	10%	14%
Vocational/Technical School	12%	10%
Age		
< 25	25%	33%
25-34	56%	52%
36-44	14%	12%
45-54	4%	3%
>54	1%	1%

During the year a comprehensive Job Analysis exercise, a key element of effective of Human Resource management, was conducted embracing 260 distinct job positions. Based on the results of this analysis, the Bank's man-power plan, career development plan and performance appraisal standards were further refined and improved.

With the aim of rationalizing work performance appraisal and increasing the productivity of front line staff members and introducing an optimum wage and salary system, performance based salary systems were successfully introduced for the positions of customer service officers and tellers.

During the year 80 of our employees were granted prestigious State Awards by the President of Mongolia, the Ministry of Finance, the Central Bank, the Mongolian Youth Committee and the Mayor of Ulaanbaatar City.

With the rapid growth of the Mongolian economy, the demands and requirements for highest calibre human resources in the banking sector are constantly increasing. In order to recruit and train highly skilled, educated employees the Bank successfully implemented a Recruitment Campaign, to hire the best candidates and offer them extensive training to for their new professional assignments.

In the framework of corporate social responsibility for its employees, the Bank also implemented the Total Reward Programme to support the employee's lifestyles and resolve social issues of staff members. As an incentive to motivate long serving employees, the Bank established the first Private Pension Fund in Mongolia for its employees, introduced concessionary mortgage loans with flexible conditions and launched an innovative Employee Stock Ownership Programme.

Training and Development

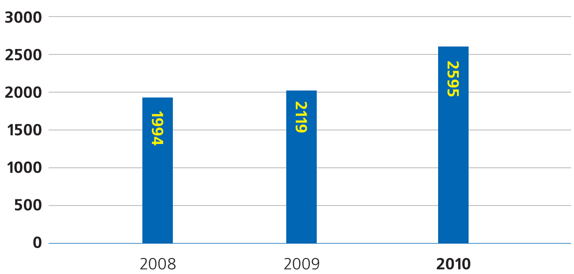
As an organization dedicated to continuous learning the Bank offers a comprehensive range of new and current employee's training programmes, embracing professional and managerial development, focused on 3 key levels: induction, professional skills training, and management.

Training in Golomt Bank

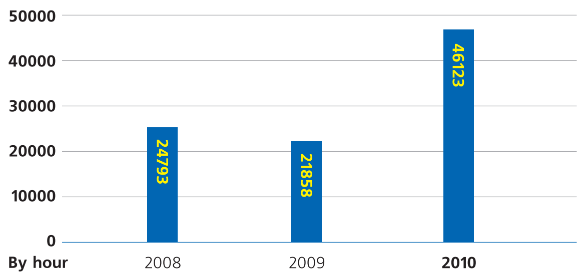
	2008		2009		2010	
Training expense /MNT/		101,689,712		144,940,942		190,555,054
Training statistics	Training participants	Training hours	Training participants	Training hours	Training participants	Training hours
Overseas training	15	800	20	1120	24	1,176
Internal training	1,723	19,044	1518	15,410	2,055	39,403
External training	256	4,949	581	5,328	516	5,544
Total	**1,994**	**24,793**	**2,119**	**21,858**	**2,595**	**46,123**

During the course of the year a total of 2,595 training programmes were offered reflecting an average of 43 hours per employee.

Training participants
(Number of employees trained)



Training time
(Including overseas training, internal and external training)



- We conducted orientation training for all new employees and successfully implemented a mentorship programme in order to increase the knowledge and the skills of recruits in their new roles and to familiarize them with the rules and regulations;
- we conducted 8 training seminars for Customer Service officers to improve their efficiency in performing their duties and operations;
- overseas training is considered one of the most powerful tools to develop the qualifications of our staff. Last year a total of 24 officers attended such programmes in Europe, the United States and several Asian countries;
- in addition to conventional class format training, we organized internal training, not only in our dedicated training center, but also in cooperation with external training centers.
- 11 officers attended specialist subject training programmes with foreign trainers including experts from the Financial Technology Transfer Agency;
- the Bank has developed a successful and enjoyable programme of competitions focused around specific essential functional and professional skills to hone, improve and develop those skills in an invigorating and stimulating environment;
- we conducted programmes to develop branch managers and organized "The Best Manager" competition throughout the Bank; and
- through career development planning, we successfully organized professional programmes for specific job positions such as Relationship Managers, Supervisory Accountants and Operations Senior Officers at all branches of the Bank.

INFRASTUCTURE

Within the framework of constantly improving the integrity of customer information security, an important project to re-structure and refine our network security was successfully concluded.

The Bank upgraded our online card payment programmes to 3D Secure system and reinforced the safe environment of transactions at merchants not just for our valued Golomt Bank customers but also for customers of other banks who have implemented the same 3D Secure system. Aiming to minimize online payment fraud, "Verified by Visa" and "Verified by Master Secure Code" standards have successfully been introduced.

With the rapid economic development and expansion of the Bank's operations, we enhanced our core operating platform by successfully introducing "GRATS", the automated programme managing foreign exchange precious metals, interbank loans and securities transactions, and "GRAFTS", the automated management system for foreign trade transactions administration and monitoring.

Retaining our market leadership position as the most advanced technology organization in the banking sector of Mongolia, the Bank has successfully implemented projects including the introduction of the China Union Pay RMB card, an online account opening and managing system for Mongolian citizens living abroad, as well as dual currency credit cards for the first time in Mongolia.

Within the framework of the Government policy of "Introducing Clearing service for processing payment card transactions for 24 hours between banks" as stated in "Government Monetary Policy Guidelines: 2010", The Bank of Mongolia developed the national "Unified Switching System of Card Payments" and Golomt Bank joined the system. By participating in this network, Golomt Bank, which dominates 60 per cent. of payment card transactions within Mongolia, together with the sub-members of the Bank's payment card system (including XacBank, Capitron Bank and State Bank), is very much at the core of the 'One Card-United Network' which benefits all card users and bank customers throughout the Motherland of Mongolia.

These projects are a reflection of both the national monetary policy objective and our committed policy of reducing the excessive volume of cash circulating within the country by increasing the utility of online and electronic banking services within the most secure possible environment. The underlying objective is that merchant organizations and small businesses will be able to increase their business volume, operating in a standardized environment to deliver their products and services to their clients and customers, by obtaining electronic banking and payment services at the point of sale.

Through successful cooperation with MIAT (our national airline) the Bank has implemented online ticketing services for the first time in Mongolia.

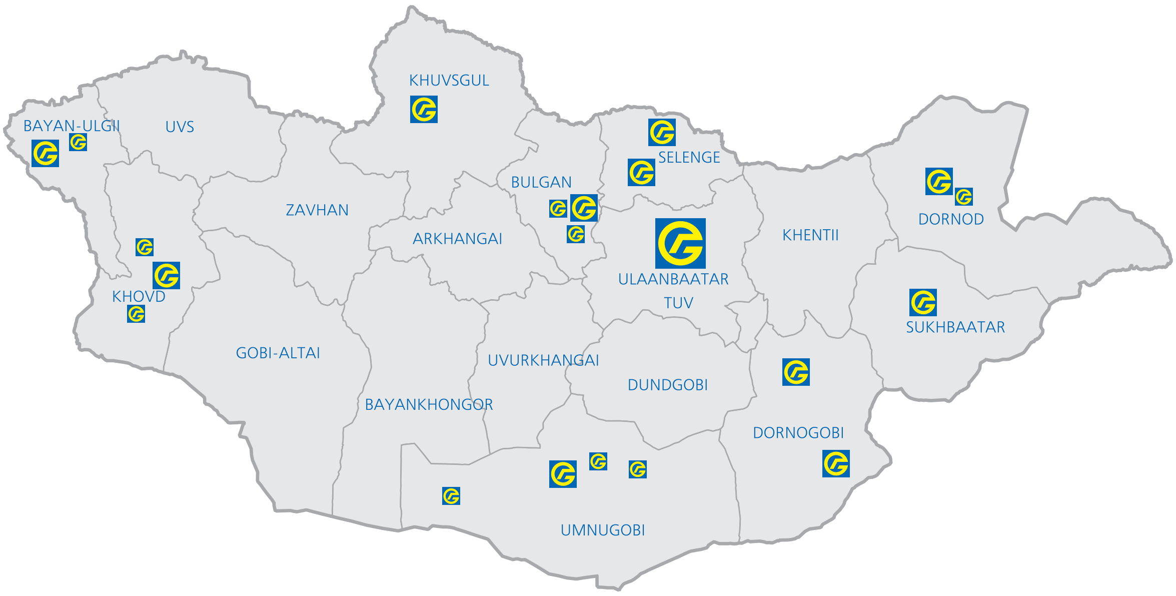
With the aim of improving our operational efficiency, employees' performance and work coherence, the Bank introduced an internal communication system called 'Sharepoint' and is constantly working on the refinement and redevelopment of internal information technologies and programmes.

OPERATIONAL REVIEW

RETAIL BUSINESS

The Bank further developed the retail banking business by progressively expanding the branch network into areas with high population density and solid prospects for sustained growth at the heart of Mongolia's future economic development. During the year we opened 18 new branches, 7 new offices in Ulaanbaatar and 11 new offices in Selenge, Khovd, Bayan-Ulgii, Dornod and Umnugobi Aimags, bringing the total number to 70 offices comprising of 39 offices in Ulaanbaatar and 31 offices in rural provinces.

The Bank established new offices in Gurvantes soum and Khanbogd soum in Umnugobi Aimag, at Khushuut mine in Khovd Aimag and Tavan Tolgoi mine in Umnugobi Aimag in order to provide the widest range of financial services to companies entrepreneurs and employees engaged in the mining sector, the future engine of Mongolia's economic prosperity, and its supply chain. In addition, we established new offices in Monnis Tower and in the main building of the Mongolian University of Science and Technology. Currently, we are in the construction phase of our office development project in Oyu Tolgoi. Thus, the Bank is improving the service quality to serve its customer in a more efficient manner as well as accelerating the speed of executing transactions.



By doubling our ATM network to 100 ATMs, the Bank continues to provide 28 per cent. of the total banking system's ATM network. In 2010, the number of Golomt Bank's card merchants increased by 18 per cent., thus retaining the highest number of card merchants in Mongolia. The Bank continued its dominance in card payment transactions within the Mongolian banking system processing over 60 per cent. of total transactions reflecting the increased activity of our 760,000 cardholders. The total volume of card transactions through Golomt Bank's card merchants increased by 145 per cent., while the transaction volume for cards issued by international banks through Golomt Bank's card merchants increased by 53 per cent. During the reporting year, fee income from card transactions increased by over 60 per cent..

Once again the Bank was granted "Best Product Innovation of the Year" award by MasterCard Worldwide following the introduction of Picture cards, customizing option with unique designs.

In order to provide the complex financial services to meet the demand of Mongolian citizens working in South Korea, the Bank has seconded an officer to Seoul and successfully organized both advertising campaigns and cultural events to attract Mongolians in Seoul and Ansan City in collaboration with the Center for Overseas Employment L.L.C. In addition, the Bank launched online account opening services, offering the opportunity to open and manage their bank accounts online, for Mongolian citizens resident abroad.

As the pioneer in introducing advanced information technology services to the banking and financial sector of Mongolia, the Bank introduced several new products and services including:

- China Union Pay RMB card (a world exclusive outside Mainland China);
- "Nandin" picture cards, providing exclusive design customizing option;
- MNT-Euro dual currency cards;
- In addition the bank established the first bank assurance service in Mongolia to provide additional financial security to our valued banking clients.

Throughout the year, the Bank focused on the expansion of our suite of E-banking products encompassing internet banking, mobile banking and SMS banking services which offer banking services in the most efficient, convenient and cost effective fashion on a 24/7 x 365 days basis. Internet banking clients increased by 72 per cent., while internet transactions increased by 85 per cent. The Bank successfully upgraded our internet banking service and expanded our electronic banking service outreach by introducing, among other initiatives the following:

- improved security controls and user authorization of parameters;
- expanded WAP based internet banking services;
- upgraded information about ATM and branches services providing a feedback and suggestions relating to standards of customer service and customer satisfaction by SMS;
- implemented an online ordering system for Nandin picture cards and gift cards;
- established online ticket ordering services in collaboration in MIAT and the Mongolian railroad.

The Bank offers the most comprehensive range of banking and financial services with flexible conditions specifically tailored to meet the particular requirements of each valued client segment.

SME Loans

In response to the Government of Mongolia's announcement of the year 2010 as a "Year of Business Enabling Environment Reform", the Bank encouraged Small and Medium Enterprises by offering business loans with flexible conditions as an essential element of our policy to support small and medium-sized entrepreneurs by making our service and product conditions more flexible to reflect their underlying business requirements and demand.

In addition, the Bank supports the agricultural sector by disbursing business loans tailored to specific needs during the period of harvest, raising crop and preparing fallow land so the volume of our loans to the agricultural sector has materially increased following the opening of our branch office in Selenge Aimag, the heart of the agricultural sector in Mongolia. Golomt Bank also increased its collaboration with the leading supranational, international and domestic organizations as well as the Government with the aim supporting the development of both the SME sector and the regional economies. These medium and long-term officially supported project loans programmes include:

- "Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection" funded by the Japanese Bank of International Cooperation;

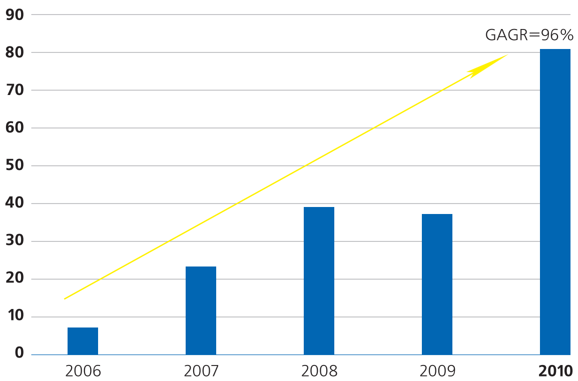
- Private Sector Development Credit Project by the International Development Association, an affiliate of the World Bank;
- SME Development Project in the rural areas funded The Ministry of Food, Agriculture and Light Industry and the SME Fund;
- SME Development Project in Ulaanbaatar City funded by The Ministry of Food, Agriculture and Light Industry and the SME Fund;
- SME Development in the Food and Agriculture Sector project in cooperation 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 Dutch Government in collaboration with the Mongolian National Chamber of Commerce and Industry to promote clean production and energy efficiency companies and to support their activities;
- Loan Guarantee Fund in collaboration with Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ), the German development, agency and its regional development programme;
- Loan Guarantee Programme in collaboration with Mercy Corps International to support Rural agribusiness;
- Employee Generation Project Loans in collaboration with Asian Development Bank.

The overall numbers and spread of project loans and collaboration by the Bank with International organizations steadily increased in synchronization with the overall pace of national economic development.

Mortgage Loans

In the fulfillment of our objective of contributing to of the process of urban development while improving the environment and creating ownership of property, the Bank actively supports the Government's "4,000 Housing Units" and "100,000 Housing Units" projects. Accordingly the mortgage loan portfolio increased by 106 per cent. to reach MNT 80.1 billion by the year end, thereby creating property ownership opportunities for over 3,500 households.

Mortgage Loans (MNT Billion)



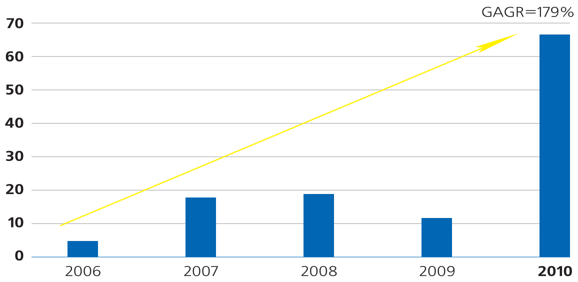
In addition the Bank continues to support the employees of its valued corporate clients by offering tailored purchages of mortgage loans with flexible terms and conditions. The Bank also cooperates with leading construction companies, in building new apartments and houses in order to provide an opportunity for Mongolian citizens to buy high quality family residences and thereby increasing property ownership and creating the capital stock for inter-generational asset transfers.

Consumer Loans

With the rapid economic development and increasing number of middle income earners, the Bank continuously revises and enhances its loan products to accommodate evolving demand especially for purchases of capital goods and educational services.

During 2010, retail sales in Mongolia increased by 62.4 percent over the previous year and the Bank contributed to this growth by disbursing in aggregate MNT 140.8 billion consumer loans, mostly of short duration, to a total of over 26,000 customers.

Consumer Loans (MNT Billion)



The Bank pays particular attention to enhancing our the product knowledge and understanding of financial terms and conditions by our valued customers and organizes regular training and seminar sessions aiming to provide comprehensive information about our products and services to our customers, identifying their specific needs and suggesting appropriate product solutions which best meet those aspirations.

The Bank is cooperating with over 150 retail organizations and companies in order to offer our customers finance for the purchase of a wide range of capital goods such as furniture and vehicles thereby acting as an effective intermediary bridging the gap between suppliers and customers.

In 2010, Golomt Bank once again became the largest bank in Mongolia with total assets of MNT 1,573.9 billion and this is reflection of our intrinsic financial strength and operating efficiency as well as the underlying trust and confidence reposed in the Bank by our many hundreds of thousand retail clients.

CORPORATE BUSINESS

The range and volume of banking services and products offered to our valued corporate clients has been consistently expanding reflective of the continuous growth of the Mongolian economy throughout 2010. This phenomenon is manifest in many sectors of the economy, most notably in the mining sector where leading Mongolian companies are increasing raising money on major global stock markets.

The Bank offers a wide range of financial and banking products and services such as current account, savings account, investment loans, loan, lines of credit, working capital, co-financing, trade financing, bid guarantees, payment guarantees, performance and advance payment bonds, refinancing, and project financing to local and international enterprises of all sizes in Mongolia. Golomt Bank's aim of always striving to improve and develop collaborative relationships with customers, has led to its ever expanding market share within the overall banking and financial sector.

In order to extend ease of access to both our established and new Corporate banking clients, the Bank has established new dedicated corporate banking offices in the key business centres close to our valued customers. In addition, the Bank offers tailored solutions to employees of our corporate customers by offering packaged services and products with preferential terms such as mortgages, consumer loans, salary and credit cards, internet banking, and mobile banking.

The Bank has sharpened its focus by offering specialized, tailored financial services to suit the needs of our governmental, institutional and corporate entities thereby successfully increasing the number of customers and business volume and better serving the business needs of both domestic and foreign companies.

One of the highlights for the year 2010 was the creation of tailor made banking and financial services solutions for specific industries business needs in collaboration with Government Ministries by actively promoting financial services to companies engaged in infrastructural development. We also organized meetings and seminars for road construction companies in collaboration with the Ministry of Transportation, Urban Development and the Auto Road Association. In addition, the Bank has created a broad suite of guarantee facilities embracing bid, performance and advance payment bonds, guarantee lines, payment guarantees, letters of credit and working capital facilities for companies working on infrastructural development projects funded from the Government budget.

The Bank increased its collaboration with foreign embassies as well as foreign companies in Mongolia. Besides offering financial services we increased our focus upon publicizing the many attributes of Mongolia and its unique growth perspective while improving cross cultural communication. The Bank also regularly publishes economics reports and papers addressing the state of the Mongolian economy and specific industrial sectors as well as organizing and sponsoring conferences and forums. We organized a number of promotional initiatives including 'Ergekh Kholboo' between Mongolian nationals who work in South Korea, a TV programme in collaboration with the Center for Overseas Employment L.L.C. and Education TV, as well as a number of widely supported sporting tournaments for the diplomatic corps in close and exclusive collaboration with the Ministry of Foreign Affairs and Trade.

We continue to expand the range and scope our tailor-made banking products in order to respond efficiently to the constantly changing business and economic environment as well as successfully financing infrastructure projects funded by domestic and international organizations and the Government of Mongolia.

Banking Services for the Mining Sector

Our dedicated Mining Department delivers the most comprehensive range of banking and financial products to our Mongolian and international mining sector corporate clients. As Mongolia's leading corporate bank, we place a special emphasis up on the mining sector through this dedicated department staffed by experience mining financiers . By the year end loans to the mining sector accounted for approximately 20 per cent. of the total loan portfolio. Furthermore, our close relationship and collaboration with mining investor companies, banks and financial institutions creates a unique competitive advantage enabling us successfully to fulfil the intermediation role in the process of capital formation.

INVESTMENT BANKING

The principal activities of Investment Banking Division constitute structuring, sourcing, negotiating and closing debt and equity financings as well as the provision of incisive advisory services for private and public companies as well as institutions, public sector agencies and authorities.

Our vision is to fuel the profitable growth of our valued clients by providing the highest-quality investment banking services, and in so doing create an environment which will lead to long term, mutually beneficial relationships. We strive to achieve these lasting relationships by matching each client assignment with the collaborative expertise of the Bank's team of seasoned banking and investment professionals.

By attentive understanding of each client's business and strategic objectives, we are able to focus on their particular needs, effectively develop financing strategies, efficiently achieve their goals and manage each transaction process rapidly, through to successful closure.

Golomt Bank's Investment Banking Division team is dynamically involved in:

- structuring debt and/equity instruments, refinancing existing debt, working capital, horizontal and vertical expansion into new markets, and organic growth within a company's existing business profile and footprint ;
- contacting prospective investors;
- preparing and presenting offering prospectuses;
- establishing joint ventures;
- negotiating financing terms with investors;
- facilitating due diligence processes;
- drafting and executing documentation.

Investment Banking Division assists its clients in securing debt and equity capital to finance a broad range of requirements including corporate expansion, acquisitions and green-field projects. Over the years the Bank has developed extremely close relationships with many financing sources and maintains active relationships with diverse overseas institutional investors including major private equity institutions, venture capital and mezzanine funds, regional and money-center commercial banks, insurance companies and sovereign wealth funds in addition to our long-standing relationships with our valued financial partners.

These sources provide capital ranging from equity and equity linked instruments to subordinated debt and bridge financing. Our relationship with these entities and knowledge of their investment criteria and processes enables us expeditiously to present multiple financing options and structure flexible financial packages consistent with market conditions, and optimized to our client's objectives as relating to amount, tenor, conditionality and all-in-cost.

TRADE FINANCE AND INTERNATIONAL PAYMENTS

Our Trade Finance Department offers comprehensive, professional trade financing solutions devised to match individual client needs, thereby facilitating cash flow management and reducing risks associated with foreign trade. With a professional team of documentary specialists and a state of the art trade finance IT platform, the Bank's product range and service capacity is second to none. Major trade finance services include, both import and export letters of credit; standby letters of credit; letters of guarantee; documentary collections, advisory services and related payment and foreign exchange transactions conducted through our wide range of leading global correspondent banks.

We also offer consultation services to our valued customers highlighting the attributes of our trade finance services and their highly positive impact on the cash flow of an organization.

Import letters of credit increased by 55 per cent. over 2009 levels while export letters of credit saw a dramatic increase of over eight fold compared to 2009. As Mongolia's mineral exports assume world scale importance our specialist Trade Finance services can be expected to enjoy equally dramatic growth in the years ahead.

The Bank's volume of international payment transactions generated an increase of 28 per cent. in 2010 with incoming payment transactions and outgoing payment transactions increasing by 16 per cent. and 37 per cent. respectively, while we continue to broaden the range of correspondent banking relationships which we enjoy with the leading regional and international money centre banks.

TREASURY

Treasury and Liquidity Management

The Treasury Division is responsible for the Bank's money market, foreign exchange and liquidity management activities all of which exhibited sustained growth throughout 2010 while the continued to enjoy the highest level of liquidity in excess of 50 per cent.. The Bank remains the only Mongolian bank to source direct equity related Tier 2 capital from leading commercial (non-donor) enterprises: Credit Suisse and Abu Dhabi Investment Council. These affiliations prove of considerable incremental value is the Bank in addition to their underpinning of our capital base.

Bill Trading

Central Bank Bills constitute the main instrument of monetary policy of the Central Bank and play a key role in bank reserve policy management. Interest rates on Central Bank Bills have coalesced around the Central Bank policy rate (currently 11 per cent. per year) which serves as the effective discount rate in the interbank market. At the end of 2010, Golomt Bank held 35 per cent. of the Central Bank Bills in issue and the Bank remains the primary lender to the banking system.

The Bank supported the Government's "4,000 Units Household Programme" by purchasing Government bonds issued in support of this initiative.

Foreign Exchange

2010 proved to be a banner year for Mongolia's foreign exchange markets with a 54 per cent. increase in export revenues reflecting the favourable combination of increased volumes and values of mineral exports buttressed by dramatic increases in foreign direct investment and currency inflows from the launch of successful IPOs of Mongolian companies on leading international stock exhchanges.

As the major market marker in the foreign exchange market, Golomt Bank actively participated in the Central bank's USD currency auctions. In supporting and developing the foreign currency exchange market, the Bank worked closely with the Central Bank and successfully launched innovative forward and swap products in to the market. With the juxtaposition of an appreciating domestic currency in the Tugrug and growing volumes of trade and investment flows into Mongolia it is anticipated that Tugrug based foreign exchange hedging services will assume a role of growing future importance.

Gold Trading

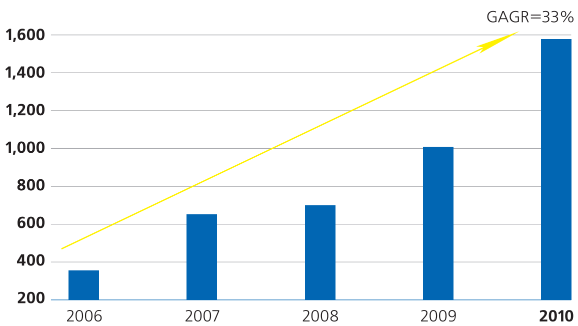
The Bank continues its long-standing support to domestic gold mining companies by both pre-financing and purchasing their gold production and on-selling this to The Bank of Mongolia.

FINANCIAL REVIEW

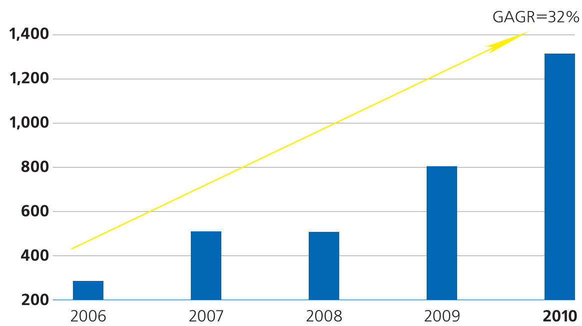
2010 proved a propitious year in terms of the achievement of our financial aspirations resulting in the Bank once again becoming the largest bank in Mongolia ranked by total assets. Most noteworthy achievements were:

- total assets rose by MNT 560.8 billion (55 per cent.) to reach MNT 1,573.9 billion, considerably higher than the systemic growth rate of 41.2 per cent.;
- customer deposits rose by MNT 522.2 billion (66 per cent.) to reach MNT 1.317.5 billion, again considerably more than the systemic growth rate of 55.3 per cent.;
- net loans grew by MNT 279.3 billion, (55 per cent.) to reach MNT 784.6 billion, very significantly in excess of the systemic growth rate 25.0 per cent. respectively; and
- with a loans to deposits ratio of 60 per cent. the Bank enjoys the strongest balance sheet and greatest potential for additional credit creation of all the country's leading banks.

Total Assets (MNT Billion)



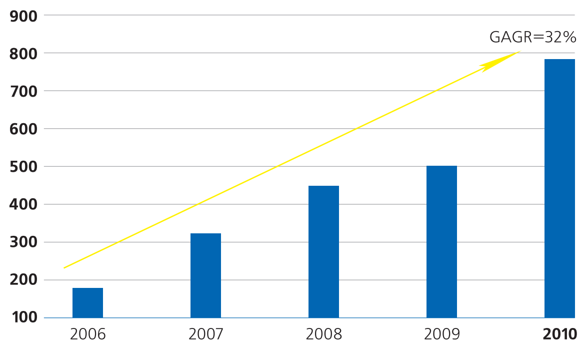
Total Deposits (MNT Billion)



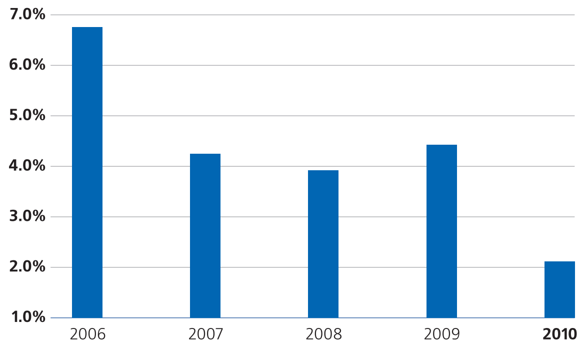
At the year end the Bank's market share rose from 22.9 per cent. to 25.2 per cent. measured in terms of assets, with customer deposits rising from 25.8 per cent. to 28.5 per cent., and net loans from 20.7 per cent. to 25.8 per cent..

The favourable combination of an expanding economy and rigorous management of impaired indebtedness resulted in non-performing loans reducing from 4.4 per cent. to 2.1 per cent. in contrast to the systemic level of 7 per cent. and the aggregate level of 3.5 per cent. pertaining to the three leading banks classified by The Bank of Mongolia as Group 1 banks.

Net Loans (MNT Billion)

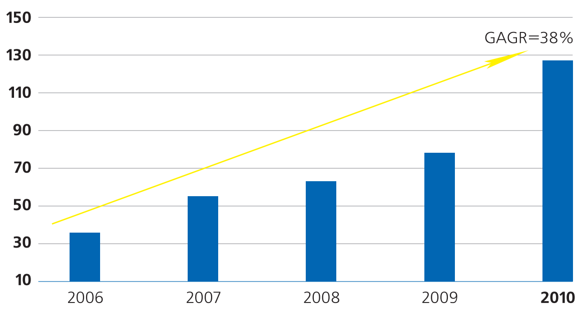


NPLs (%)

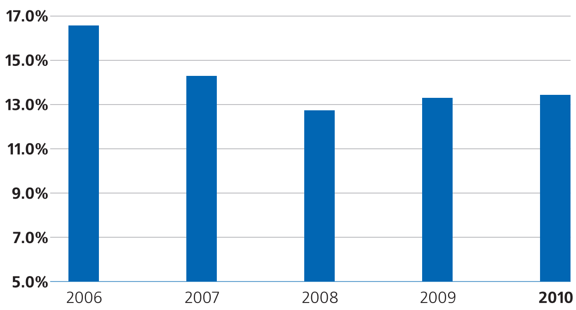


In 2010 Tier I capital rose by 31 per cent., MNT 20.1 billion, to reach MNT 84.1 billion while Tier II capital increased by MNT 29.5 billion (over 200 per cent.) to reach MNT 44 billion reflecting the injection of the first USD 25 million of an aggregate convertible subordinated loan facility of USD 35 million subscribed by Stanhope Investments Limited as the nominee of Abu Dhabi Investment Council. Total capital rose by MNT 49.6 billion (63 per cent.) to reach MNT 128.1 billion.

Capital (MNT Bilion)



Capital Adequacy Ratio (%)

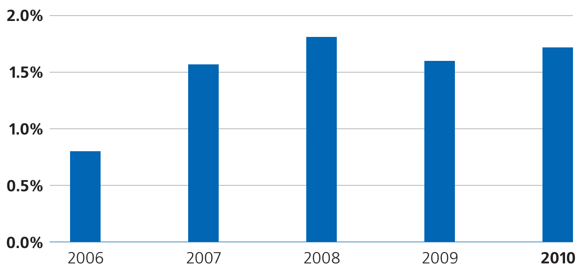


At the year end the resultant Capital to Risk Weighted Assets Ratio was 13.5 per cent. surpassing by more than 10 per cent. The Bank of Mongolia's stipulated minimum rate of 12% per cent..

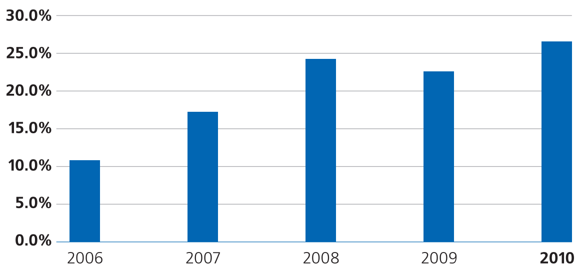
Profitability

In 2010, Return on Assets showed a marginal increase from 1.6 per cent. to 1.7 per cent while Return on Equity increased from 22.5 per cent. to 26.6 per cent. reflecting the overall improvement in our business volumes and operating efficiency. Even though average headcount increased by 122 over the prior year, profit per capita increased by 33 per cent. from MNT 15.6 million in 2009 to MNT 20.7 million during 2010.

Return on Average Assets (%)

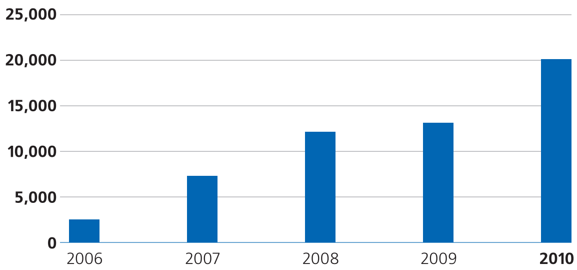


Return on Average Equity (%)

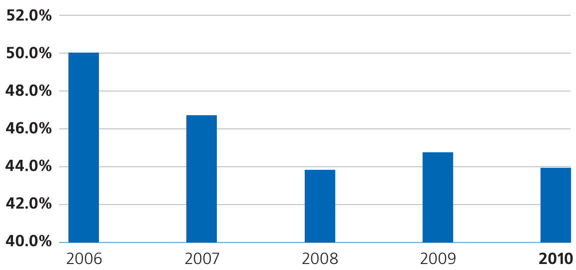


Operating income rose by MNT 9.3 billion (25 per cent.) to reach MNT 46.5 billion while profit before credit loss expense rose by MNT 4.7 billion (22.7 per cent.). Meanwhile post tax profit rose by MNT 6.9 billion or 52 per cent. to reach yet another record of MNT 20.1 billion. It is noteworthy than alone among Mongolia's leading banks, Golomt Bank increased its profitability each year throughout the global financial crisis, generating record profitability upon a consistent basis.

Post-Tax Profit (MNT million)



Cost Income Ratio (%)



Net interest income: Interest income increased by MNT 29.3 billion (36 per cent.) to MNT 111.2 billion while Interest expense increased by MNT 23.5 billion (41 per cent.) to MNT 81.4 billion resulting in an increase in net interest income by MNT 5.8 billion (24 per cent.) to reach MNT 29.7 billion.

- Loan interest income grew by MNT 16.6 billion (23 per cent.) to MNT 90.6 billion reflecting underlying growth in the portfolio;
- Interest income on securities grew by MNT 11.6 billion (183 per cent.) to reach MNT 18.0 billion reflective of effective liquidity management and increased holdings of as a result of active management of the growing portfolio of Treasury and Central bank bills;
- Interest expense on customer deposits increased by MNT 26.5 billion (55 per cent.) to MNT 74.7 billion whereas aggregate deposits increased by 66 per cent. thereby demonstrating the relative price inelasticity of customer deposit rates in the domestic market.

Net Non interest income: Net non interest income increased by MNT 3.4 billion or 26 per cent. principally relating to gains in foreign exchange plus fee and commission income.

- Foreign exchange income increased by MNT 1.8 billion representing increased volumes of customer driven transactions;
- Loan fees and commission income increased by MNT 1.3 billion;
- Account service fees rose by MNT 0.5 billion, while card related fees and commissions grew by MNT 0.6 billion and transaction fees by MNT 0.4 billion;

Total operating income rose by MNT 9.3 billion (25 per cent.) to reach MNT 46.5 billion reflecting these broadly based improvements in both net interest income and net non interest income.

Operating expense: Reflective of the continued increase in the number of branches, staff and volume of operations, operating expense rose by MNT 4.5 billion (27 per cent.) to reach MNT 21.2 billion.

- Staff costs increased by MNT 1.4 billion (24 per cent.) as a result of increasing headcount, salary increments, performance based compensation and the introduction of non-cash benefits including the First Pension Fund where employee contributions are matched by an equivalent contribution from the Bank;
- Insurance expense increased by MNT 0.2 billion reflecting the increased amount of cover secured over our expanding business and asset base.
- Advertising and marketing expenses increased by MNT 0.3 billion (40 per cent.).
- Overall occupancy expense increased by MNT 1 billion (14 per cent.).

Notwithstanding the 27 per cent. increase in aggregate expenditure levels the cost/income ratio showed a marginal improvement to 44.0 per cent. compared with 2009.

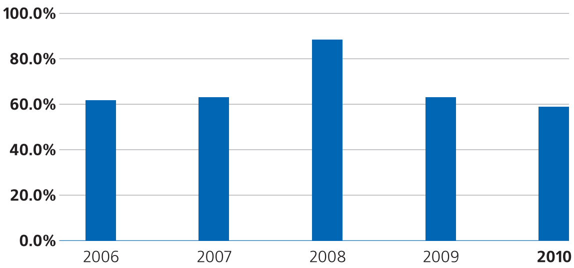
Taxation:

Income tax expense was MNT 6.1 billion, an increase of MNT 2.0 billion in 2010 compared with MNT 4.1 billion in 2009. The Bank remains one of the country's leading tax payers.

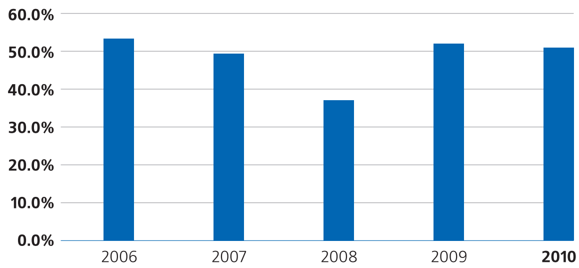
Liquidity

At the end of 2010 the Bank’s liquidity ratio was 51.2 per cent. while the net loans to total deposits ratio was 59.6 per cent., lower than the systematic average of 66.1 per cent., further underpinning the comfortable liquidity profile.

Net Loans/Deposits (%)



Liquidity Ratio (%)



FIVE YEAR FINANCIAL RESULTS

	2006	2007	2008	2009	2010
Balance Sheet Indicators (MNT million)					
Total Assets	353,161	652,051	697,179	1,013,109	1,573,936
Deposits	283,707	512,485	505,171	795,251	1,317,499
Net Loans	174,700	323,026	447,787	505,299	784,605
Capital	35,794	54,871	63,548	78,471	128,072
Profitability Indicators (MNT million)					
Interest Income	26,955	44,564	69,318	81,832	111,157
Interest Expense	(18,283)	(30,228)	(43,569)	(57,905)	(81,448)
Net Interest Income	8,672	14,336	25,749	23,927	29,708
Non Interest Income (net)	3,698	7,231	8,912	13,333	16,749
Operating Expense	(6,179)	(10,078)	(15,178)	(16,712)	(21,242)
Credit and Receivables Loss Expense	(2,563)	(2,299)	(3,958)	(3,240)	983
Taxation	(1,109)	(1,811)	(3,324)	(4,138)	(6,145)
Post -Tax Profit	2,520	7,378	12,201	13,170	20,053
Financial Structure Ratios					
Deposits / Total Assets	80.3%	78.6%	72.5%	78.5%	83.7%
Equity / Total Assets	8.9%	5.9%	7.3%	6.3%	5.3%
Net Loans / Total Assets	49.5%	49.5%	64.2%	49.9%	49.8%
Net Loans / Deposits	61.6%	63.0%	88.6%	63.5%	59.6%
Non Performing Loans to Total Loans	6.7%	4.2%	3.9%	4.4%	2.1%
Gearing Ratio (Total Liabilities/ Total Capital)	8.9	10.9	10.0	11.9	11.4
Profitability Ratios					
Return on Average Assets (%)	0.8%	1.6%	1.8%	1.6%	1.7%
Return on Average Equity (%)	10.7%	17.3%	24.3%	22.5%	26.6%
Net Interest Margin (%)	4.0%	4.1%	4.2%	4.1%	3.6%
Cost Income Ratio (%)	50.0%	46.7%	43.8%	44.9%	44.0%
Prudential Ratios					
Capital Adequacy Ratio >12%	16.7%	14.4%	12.8%	13.4%	13.5%
Forex Exposure Ratios:					
Total Currency <+/- 40%	39.7%	8.1%	11.9%	11.8%	17.1%
Single Currency <+/- 15%	14.3%	5.8%	9.5%	10.0%	11.2%
Single Borrower Exposure/Capital funds <20%	18.3%	17.5%	19.5%	19.9%	17.6%
Related Party Exposure < 5%	1.7%	2.7%	3.7%	3.5%	3.4%
Related Party Exposure - Total < 20%	2.0%	8.8%	10.5%	15.9%	10.3%
Liquidity Ratio	53.2%	49.3%	37.0%	51.7%	51.2%
Fixed Assets Ratio < 8%	1.1%	1.0%	1.0%	0.7%	1.6%

RISK MANAGEMENT AND CONTROL

The Bank's risk management strategy is constantly assessed in the light of emergent risk indicators throughout the year so as to take the necessary steps to strengthen the control process in synchronisation with the expanding business environment and in coordination with the Retail and Corporate Banking Divisions.

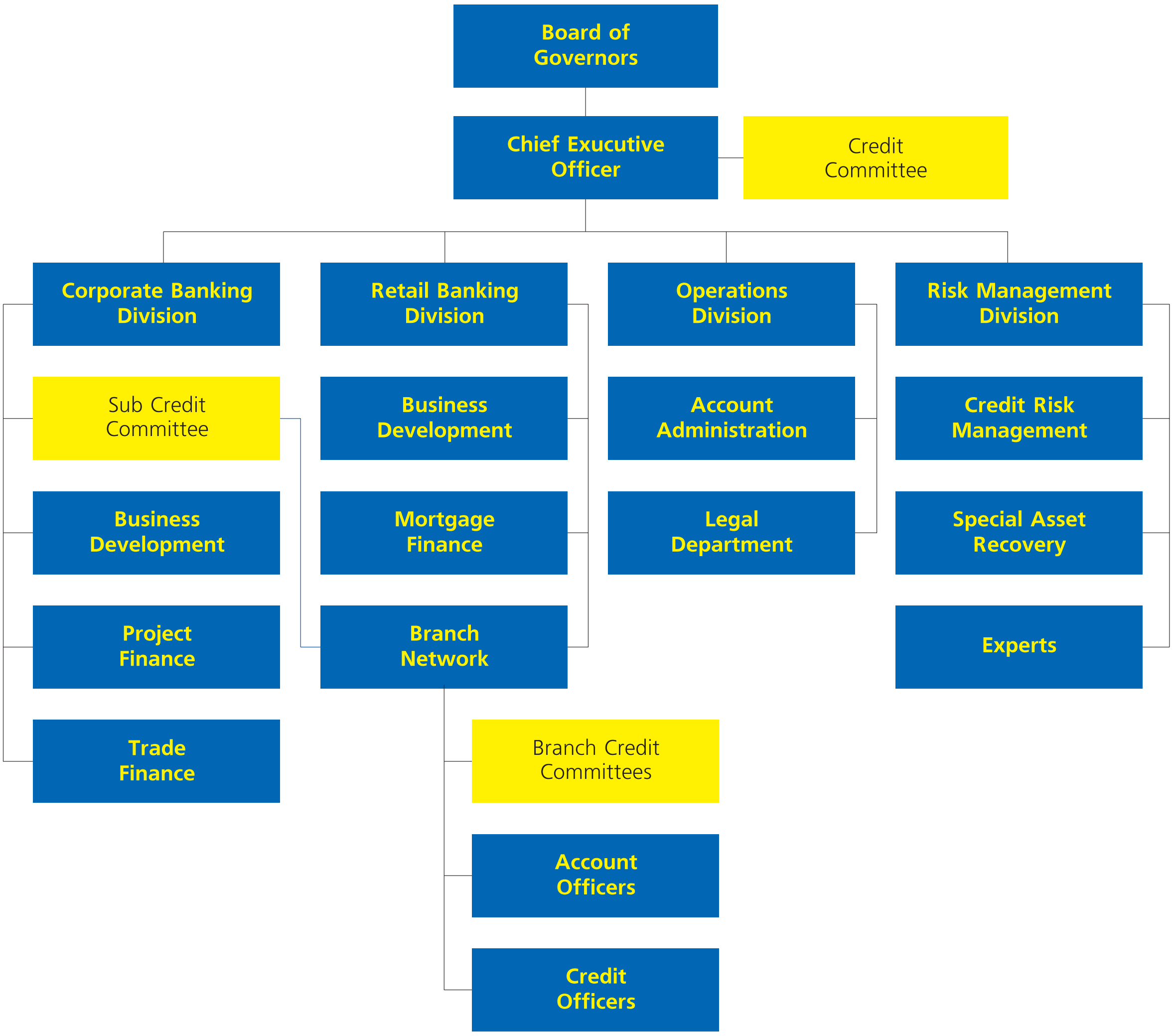
Risk Management Division works very closely with all Divisions in order to provide financial support, counselling, and training programmes that in turn help the Bank to optimize its financial discipline and advance its relationships with its clients. Overall the Risk Management Division is charged with protecting the Bank from every component of financial and economic risk and reports directly to the Chief Executive Officer. As detailed more comprehensively in the Economic Review section of this Annual Report, in 2010 we benefitted from a steadily expanding economic environment.

Credit Risk

The Bank's credit strategy, policies and procedures comply with the Principles for the Management of Credit Risk published by the Basle Committee in September 2000. The Principles for the Management of Credit Risk provide guidance for the sound extension, management and control of credit risk by way of 16 principles which exemplify best practice for the Banking industry.

The credit policy is designed to create a system that mitigates to the greatest practicable extent the elements of risk borne by the Bank through its credit intermediation activities and that delivers mutual benefits for both the Bank and its clients. The policy is based on an assumption that the economy will continue to expand robustly over the medium-term, and thus, built to allow for a significant expansion of the current loan portfolio. The Board of Governors and the senior management are responsible for approving and reviewing the credit strategy and policies periodically. The strategy reflects the Bank's commercial and retail lending parameters and market dynamics in addition to focused sectoral risk assessments. The Board of Governors is also charged with setting primary ratios and other critical balance sheet related factors including the maximum leverage ratio, minimum regulatory capital ratio, and assets–to–deposits ratio.

Credit risk throughout the Bank is managed through a precisely documented governance structure with clearly defined mandates and formally delegated authorities.



The Bank has developed an internal credit rating system in order to assess impartially and accurately the repayment capacities of organizations and individuals prior to loan disbursement.

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 individual borrower, 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 methodology is applied to the probability of both timely and complete repayment of credit facilities.

In 2010 the Bank's loan portfolio performance improved significantly with overall portfolio quality attaining the highest level achieved throughout the history of the Bank. This is attributable to both endogenous and exogenous factors. The endogenous factors embrace rigorous risk limits, rigid collateralisation requirements, and a conservative strategy of immediate recognition of impairment plus retention of sufficient loan loss reserves followed by assiduous remedial management. The exogenous influences are the underlying growth in the economy feeding through to a welcome renewal in business and consumer confidence and demand.

Lending Process

The target corporate customer is approached by a relationship manager. All loan initiatives start from the relationship manager. The proposal is logged within the Corporate or Retail Banking Division as a proposal under discussion within the

Bank. Then, the relationship manager will make a financial analysis of the proposal (and a technical analysis) in order to have an in depth knowledge of the customer and the industry in which the client operates.

The relationship manager completes a proposal (business and financial analysis) and submits it to the Head of the Corporate Banking Division for a recommendation and transmission to the Risk Management Division for independent credit appraisal. All business loans over MNT 50 million or equivalent are reviewed by the Risk Management Division prior to recommendation to the Credit Committee.

Credit Review Process

The Risk Management Division receives the proposal from the Corporate Banking Division and then adopts the following process:

1. Logs the proposal into their Credit Data Base as a "Credit awaiting approval";
2. Conducts a separate independent objective analysis of the proposal;
3. Reviews all the implications of the Bank making the loan, addressing such macro issues as:
    - sectoral limits established for various industries and Bank products;
    - single borrower and group limits;
    - pricing;
    - maturity profile of the loan portfolio;
    - composition and weighting of the loan portfolio;

Exposure to credit risk is managed by a regular analysis of the capacity of potential borrowers to meet interest payment 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 any unforeseen difficulties were to 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 assessment 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 approval authorities are as follows:

- Branch credit committee: up to MNT 100 million (or its equivalent);
- Sub-Credit Committee: up to MNT 300 million (or its equivalent);
- Credit Committee: facilities above MNT 300 million individually or in aggregate;

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

- 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 in the process together with senior risk management officers.

Risk Management Division prepares an overall closing review report for 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 determinedly 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 of the scheduled due date, and, depending on amounts and customer's 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 effort 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 whether in written or verbal form are conducted in a professional, courteous and ethical manner.

The following is summary of the loan collection process:

- all customers receive a monthly Statement of Account, which identifies all past due balances. 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 extend recommendations on business management such as accounts receivable policy, marketing strategy, sales growth, price 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 recover outstandings, delinquent accounts of more than 90 days beyond the original due date are passed to the Risk Management Division, Special Assets Department for further appropriate action; and
- any disputed item, claim, or payment deficiency identified by the Corporate or Retail Division is noted and forwarded to the Special Assets 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

First, special asset managers need to analyze borrowers by evaluating and assessing the borrower's properties, other assets and contacting the concerned credit officers and other involved experts.

After the initial analysis, the managers choose appropriate and effective means to collect payments within a stipulated timeframe. The Bank may decide to adopt a workout strategy by modifying the original terms. The Bank hires specialists with legal experience and practical debt recovery expertise. Collection efforts are determined based on the results of previous contacts and the customer's character and their amenability to viable repayment solutions. Collection managers may choose to go to court for judgment and transfer to a court enforcement agency. Legal action can take 6 to 12 months. Before applying to the court for the auction of collateral the Bank must make an informed assessment based on expert advice as to the realisable value of the collateral at auction.

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 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, as has been confirmed by the Bank's external auditors, Ernst & Young. The external auditors validate the accuracy of the methodology each year.

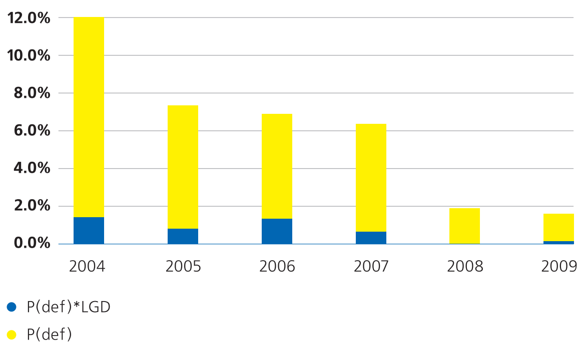
The non performing loan (NPL) classification includes loans overdue for one or more days plus loans assessed as impaired in accordance with IAS 32 (which requires that a loan`s carrying value be no greater than the estimated future cash flows discounted at an effective interest rate) and entails that for the assessment of loans a borrower`s intrinsic financial strengths, weaknesses and external environmental factors should be taken into account.

The Probability of Default fell from 1.9 per cent. to 1.5 per cent. in parallel with the 0.1 per cent of Loss Given Default in 2010.

Industry Analyses and Concentration

The Bank applies concentration limits to loan portfolios to keep its 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 a maximum of 30 per cent. of the total loan portfolio and further augments that constraint by other limits such as single borrower limit, connected borrowing group limits, and rating and country limits.

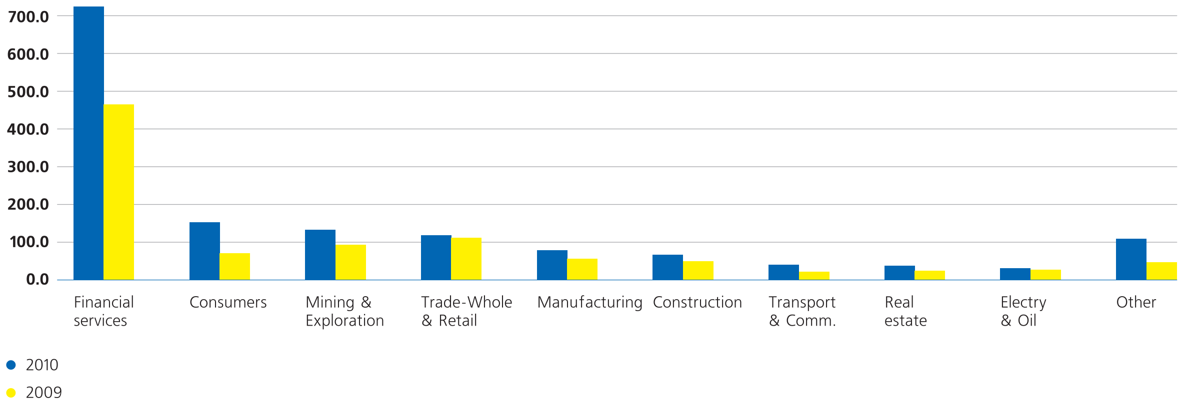
Risk Modelling



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 2010, the Bank's major credit risk component resided in the mining and exploration sector, which accounts for 17 per cent. of total loans, amounting to MNT 134 billion, well under the 30 per cent. constraint, while the second major credit risk component resides in the trade sector, which accounts for 15 per cent. of total loans amounting to MNT 119 billion. The remaining credit risk exposure is evenly disbursed among other sectors, depicted in the overleaf bar chart.

Risk Concentration of Maximum Exposure to Credit Risk (MNT billion)



At the end of 2010, the Bank's gross exposure to fluctuations in economic activity was estimated to be MNT 1.5 trillion or USD 1.2 billion, an increase of 55.0 per cent. compared to that of 2009 reflective of the combined growth in the economy and the Bank's business mix.

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 Asset and Liability Committee (ALCO) sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive governance framework for liquidity risk management throughout the Bank. Limits and guidelines prudently set by the ALCO reflect the Bank's low tolerance of liquidity risk, and the ALCO ensures 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 its 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 combine the application of purpose built technology, documented process and procedures, independent oversight by the Risk Management Division, and regular independent reviews and evaluations of the effectiveness of the system.

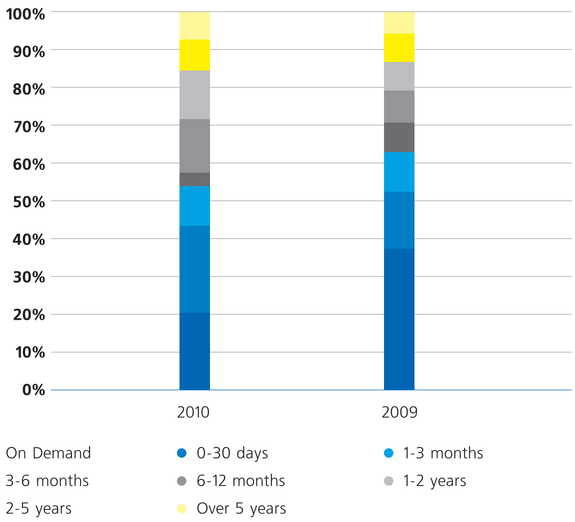
The table and graph show in overleaf depict the Bank's liquidity ratio and an analysis of contractual maturities for the years, 2009 and 2010.

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.

Liquidity Ratio	2010	2009
31st December	51.2%	51.7%
Average during the period	45.5%	44.8%
Highest	51.2%	57.2%
Lowest	38.1%	35.4%

Maturity Analysis



To supplement liquidity and short term funding projected balance sheet structures are used to determine 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 stipulated contractual notice period) which exhibit consistent stable behaviour. 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:

- Net Loans / Current Accounts & Deposits;
- Deposits with The Bank of Mongolia + Cash / Current Accounts & Deposits;
- Assets Up to One Month / Liabilities Up to One Month;
- Funds from Banks and Financial Institutions / Current Accounts & Deposits;
- Deposits with 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;
- Deposits with 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 observes a wide range of parameters in the event of changes either in market liquidity or in exchange rates and accordingly works to contain the extension of its foreign currency loans within a sustainable funding base for each foreign currency. In addition as a matter of strict policy we ensure that borrowers have a matching currency income stream.

Diversified Funding Base

Concentration risk limits are used to ensure that funding diversification is maintained across all 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 debt 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 exceptionally helpful inputs in defining its target liquidity risk positions.

Liquidity Contingency Plans

The Bank continuously augments its long-standing contingency plans designed to protect the interests of the Bank's stakeholders and maintain market confidence in the Bank, 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 certain 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 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 Board of Governors 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 responsible for the day-to-day management of market risk. The Division monitors every aspect of market risk by taking into account the specifically determined limits for products, instruments, investment categories, hedging and counterparties and by following the policies and procedures approved by the Board of Governors. The Division reports directly to the CEO with ongoing monitoring and supervision effected by ALCO.

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 in interest rates; from changing rate relationships along yield curves that impact the Bank's activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-rate-related options embedded in Bank obligations (option risk). The evaluation of interest rate risk considers the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income that is sensitive to changes in interest rates. The Bank mainly faces interest rate risk due to:

- assets and liabilities which may mature or reprice at different times (for example, if assets reprice faster than liabilities and interest rates are trending downwards, 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 to reduce 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 rate movements may diverge (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, mortgagees may prepay earlier than anticipated which could materially reduce income);

Interest rate risk can be 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 Comprehensive Income resulting from feasible potential changes in interest rates based on the facilities and liabilities outstanding at the year end.

	Change in basis points	Sensitivity to Profit Before Tax
2010	+120	-4.08 %
2010	120	4.08 %
2009	-120	-4.06 %
2009	+120	4.06 %
2008	+120	-3.96 %
2008	-120	3.96 %

Value At Risk

The primary areas of risk in the trading book derive from foreign exchange and derivative trading activities that are exposed to re-pricing and to changes in their basis risk and market liquidity. The principal risk factors are interest rate, foreign exchange, and equity prices.

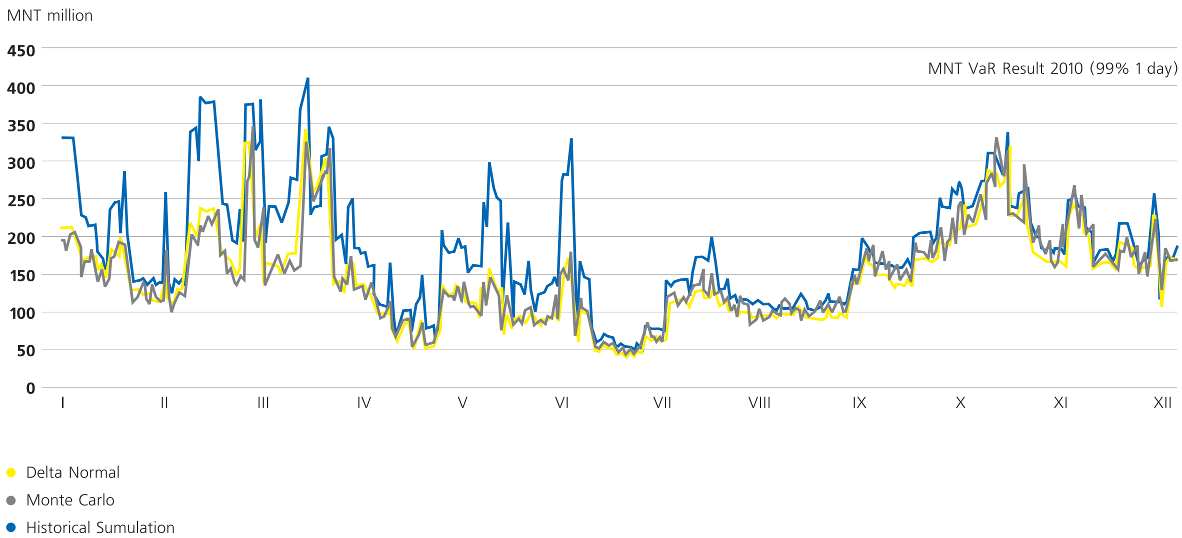
The primary focus of the Bank's trading activities is client facilitation providing our clients with appropriate products and services at competitive prices. The Bank also undertakes: market making – quoting firm bid (buy) and offer (sell) prices with an intention of profiting from the spread between 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 market conditions, all within tightly controlled authorised exposure limits.

All Divisions exposed to market risk are required to comply with the Bank's trading policy requirements. Of these requirements, the most important is specifically determined limits that are included in the trading authorities which constitute one of the cornerstones of market risk management. According to the trading policy, any breach thereof must be followed by strict remedial action in accordance with the relevant policy.

The Bank applies three types of VAR (Value at Risk) methodology to measure the market risk of its trading and Treasury portfolios; VAR technique produces estimates on 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 tenth-trading-day is in accordance with the Bank of Mongolia's prudential limit and a confidence level of 99 per cent. in the VAR application and checks its results by an automated daily programme of back-testing to compare the actual profits and losses realised in trading activities to VAR estimates.

In addition to VAR methodology, the Bank also conducts recurrent stress testing to identify potential losses in excess of the projected 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 results of such stress testing.



Operational Risk

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

The Bank has explicit definitions on the operating authorities delegated to the branches offices and has improved its internal control and oversight, and prescribed certain practices to effectively reduce operational risks through efforts in the following modes:

- enhancement of restrictive and control mechanisms on operating activities of branch offices;
- provision of Policies and Procedures Manuals addressing all aspects of branch office operations;
- setting and implementing operational standards for branch offices;
- standardization of account opening process;
- strengthening the collection and control of confidential documents and information;
- developing templates covering the information and documentation required within customer files;
- strengthening security and increasing on-site supervision;
- creating operational risk databases used to assess all aspects of operational risk management;

- enhancement and updating of qualification programs for employees;
- enhancement of information technology management policies and procedures;
- regular testing and improvement of Business Continuity Plan;
- clearly identifying responsibility and control and monitoring processes at each business level;
- strong and independent internal audit verification;
- effective operational risk management systems;
- high quality external audit processes;

The Bank enjoys the benefits of a comprehensive range of insurance policies designed to ensure that the business continues to operate without impediment or interruption. Such insurance policies help eliminate both product and operational risks and reduce the restructuring 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 within the operational risk framework that not only protects the Bank's information resources from a wide range of potential 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. In that capacity the Department utilizes a number of risk programmes customized to the Bank's specific requirements to perform effective daily monitoring.

Business Continuity Management

The Bank recognizes the critical importance of having a business continuity plan in place to identify any significant disruptions to its business stemming from unforeseen events and ensuring that risks are speedily and fully mitigated. It cannot be gainsaid that a speedy restoration of services requires a significant level of advance planning and preparation.

Accordingly the Bank has in place a business continuity plan designed to assist in managing serious disruptive crises in a disciplined manner. Operational Risk Management Department is responsible for ensuring the compliance of all Divisions with the plan and together with the Disaster Recovery Team and Business Recovery Team monitors all issues that could threaten or impede the Bank's business continuity.

Fraud Risk Management

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

The Bank understands the likely negative consequences of fraud upon its business thus pays all due attention to fraud risk management by 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 of cash or other assets. 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 across the Bank. Moreover, the Bank has assessed each area and process within its business mix and classified all perceivable potential fraud risks through identification and categorisation of potential offences and potential perpetrators.

Compliance Risk Management

Compliance risk refers to the risk of failing to comply with applicable laws, regulations, and 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 the best international practice 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. The Bank focuses acutely upon ensuring total compliance with all aspects of current and pending legislation.

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 the obligation to detect, prevent, and report them. The Bank continues to strengthen its commitment to combat money laundering and terrorist financing by constantly improving its policies and control mechanisms in tandem with the ever 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 greater 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. As is required by legislation the Bank reports any suspicious activities and large transactions to the Financial Information Unit of The Bank of Mongolia on a weekly basis. Furthermore, the Bank's policy requires that all employees be trained in anti-money laundering techniques and prevention of terrorist financing at least annually. To that end, the Bank provides all its new recruits with a comprehensive training program while maintaining regular training and knowledge updates for all existing staff. In addition, all employees in branches, frontline operational and internal control areas and Private Banking Department are provided with specialized supplementary training.

The Bank maintains very close collaboration with correspondent and counterparty Banks to exchange all requisite information and to benefit from their best practice.

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 effectively to identify 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.

COMMUNITY SUPPORT

Reflecting our long-standing role in pioneering on corporate social responsibility within our society, throughout 2010 the Bank continued our 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, social development and economic affairs.

The following constitute examples of some of those leading initiatives:

Supporting the Government's initiatives:

- Sole sponsor of the PACI (Programme of Action Against Corruption) and the Responsible Mining Initiative Forum under the joint auspices of the Office of the President and the World Economic Forum;
- Sole sponsor of the Prime Minister's Forum on Hong Kong Listing of Mongolian Enterprises in Hong Kong;
- Continued to sponsor the 2nd "Mongolia Economic Forum" organized by the Government of Mongolia;
- Sponsored Regional Investment Forums organized by the Ministry of Foreign Affairs & Trade and FIFTA;
- Sponsored the first "Judiciary Reform and Justice Forum" initiated by the President of Mongolia;
- Sponsored "Discover Mongolia-2010" Mining Investment Forum and several other investment conferences;
- Sponsored the Corporate Governance Forum by Mongolian Corporate Governance Development Centre. The Mongolian Corporate Governance Development Center (CGDC) is a Non Governmental Organization (NGO) that helps to facilitate Mongolian companies and organizations by advancing the highest standarts of corporate governance. Mr. G. Ganbold, the Executive Vice President and Chief Operating Officer of Golomt Bank, is a member of Board of Governors of CGDC.

Supporting education:

- Sponsored for the 8^{th} consecutive year our University Students' Scholarship Programme providing monthly stipends to 100 students with outstanding academic achievements while increasing scholarships by 50 per cent.;
- Successfully organized the 9^{th} Student's Scientific Conference, in conjunction with The Bank of Mongolia for students from all Mongolia's leading universities;
- Donated a state of the art conference room with modern technology to the Mongolian Academy of Science and a new library for the University of Science and Technology in order to strengthen scientific scholarship, develop applied scientific research and encourage young science students;
- Sponsored the children's team of Secondary School #11 to participate to the International Mathematical Olympiad in Kazakhstan;
- Sponsored an educational children's book, to teach the rules of the road and traffic and related signs;

Supporting the less fortunate:

- Donated a children's treatment room to the National Cancer Center of Mongolia;
- Sponsored the Mongolian Children's Aid Foundation to build an integrated new residential and educational center where orphans and homeless children live, learn and work together to become self-supporting, independent and viable members of the community;
- Sponsored a Japanese choral charity performance to support disabled children in Mongolia;
- Sponsored members of the "Wind Bird" NGO, which works on behalf of disabled people in Mongolia, to participate in a Voluntary Visitors Programme to learn about disability issues in the United States entailing an overview of the rights of people with disabilities and the roles of government and civil society organizations in advocating the rights of the physically disabled.

Supporting culture and sports:

- Continued sponsorship of the State Academic Theatre of Opera and Ballet in order to contribute to development of both the classical arts and traditional Mongolian and international opera and dance;
- Sponsored the State Morin Khuur Ensemble to produce a DVD entitled "Playing Love", to promote Mongolia's most famous traditional musical instrument: the Morin Khuur;
- Continued a leading sponsorship role in support the Mongolian National Olympic Committee, to support the development of Mongolian Olympians and excellence in sports;
- Sponsored the Mongolian National Team to the Asian Games 2010 in Guangzhou in collaboration with our valued partner, China Union Pay, the designated payment card service provider for the Asian Games 2010;
- Organized a lottery campaign among our customers and card merchants and sponsored 10 clients to attend the FIFA World Cup Finals held in the Republic of South Africa;

In 2010, the Bank again received the Top Bank award from the Mongolian National Chamber of Commerce for the 8th consecutive year, "The Best Product Innovation of the Year" award from MasterCard Worldwide, as well as "Best Productivity Location Bank" from Western Union.

Environmental Sustainability:

- Environmental sustainability is very much an integral element of the Bank's management focus at every level of our operations where we consider the impact of our environmental footprint.
- Through a variety of initiatives, both large and small in both the Head Office and branches we seek to recycle and reduce our consumption of water and energy use and our output of paper, waste and carbon dioxide.
- Aiming to increase public awareness and knowledge of green earth and green economy, the Bank continued its established campaign named " Green Earth Starts With Us" in which all our employees participate.

PRODUCTS AND SERVICES

FOR CORPORATE CUSTOMERS:

Deposits and Current Account Products

- Corporate Current Accounts
- Corporate Deposits
- Overdrafts
- Gold Deposits

Escrow Account Services

Loan Products

- Corporate Loans
    - Working Capital Lines
    - Credit Lines
    - Investment Loans
    - Private Sector Development Loans
    - Mineral Resource Loans
    - Green Loans
- Project Loans
    - PSDC-2 /IDA/
    - Green Credit Guarantee Fund, Mercy Corp
    - World Bank, TA-2
    - Agriculture Development Project loans, ADB
    - "Atar III" campaign
    - Project Loans /Mongolian National Chamber of Commerce and Industry/

Leasing Products

- Machinery
- Equipment
- Vehicles

Trade Finance Products

- Letters of Credit
- Documentary Collections
- Bill Discounting

Bank Guarantee Products

- Tender Guarantees
- Advance Payment Guarantees
- Performance Bonds
- Retention Bonds

Foreign Exchange Trading Services

Card Products

- Corporate MasterCards
    - Platinum
    - Gold
    - Standard
    - Dual card (MNT/USD and MNT/EUR)
- Corporate Visa cards
    - Platinum
    - Gold
    - Classic
    - Dual card (MNT/USD and MNT/EUR)
- Cards for employees of corporate clients
    - MasterCard cards
    - Visa cards
    - Salary cards
    - Gift cards
    - "Picture" cards
    - China UnionPay cards
- Co-branded Cards
    - MIAT Mileage Cards
    - Air Network Cards
    - Mongolian Chamber of Commerce and Industry Visa Gold Cards
- Amex card acquiring services
- Card Merchant services
- E-merchant services

E-Banking services

- Internet Banking
- Mobile Banking
- SMS banking
- E-Billing
- SMS Notification Service
- E-Commerce
- Touch Screen Services
- Call Center

Payment Services:

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

Business Consultancy Services

Investment Banking

Other services

- Invoice services
- Safe Box Services
- Cash Collection Services

FOR RETAIL CUSTOMERS:

Deposits and Current Account Products

- Current Account Services
- Overdrafts
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Preliminary Interest Rate Deposits
- Certificates of Deposit
- Gold Deposits
- Accumulator Deposits
- "Golden Key" Children's' Deposits

Escrow Account Services

Loan Products

- Small and Medium Enterprise Loans
    - Working Capital Lines
    - Investment Loans
    - Credit Lines
- Project Loans
    - Employee Generation Project Loans
    - JICA TSL Project Loans
    - SME Development Fund Project Loans
    - GTZ Loan Guarantees
    - Green Credit Guarantee Fund, Mercy Corp
- Consumer Loans
    - Household Loans
    - Salary Loans
    - Auto Loans
    - Apartment Renovation Loans
    - Student Loans
    - Savings Backed Loans
    - Credit card Loans
- Mortgage Loans

Card Products

- MasterCard
    - Platinum
    - Gold
    - Standard
    - Dual Card (MNT/USD and MNT/EUR)
    - Maestro (students)
    - Gift cards
    - Picture cards
- Visa card
    - Platinum
    - Gold
    - Classic
    - Dual card (MNT/USD and MNT/EUR)
    - Visa Electron (Student Discount card)
    - Gift Cards
    - Picture Cards
- China UnionPay Cards
- Amex card acquiring Services
- Co-branded Cards
    - MIAT Mileage Cards
    - Air Network Cards
    - Mongolian Chamber of Commerce and Industry Visa Gold Cards

E-Banking services

- Internet Banking
- Mobile Banking
- Online Account Opening
- Online card ordering
- SMS banking
- E-Billing
- SMS Notification Service
- E-Commerce
- Touch Screen Services
- Call Center

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
- Safe Box Services
- Cash Collection Services

BRANCH NETWORK

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

OFFICES IN ULAANBAATAR

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	Chinggis Khaan International Airport, Khan-Uul District, Ulaanbaatar	Tel: +(976-11)-283205 Fax: +(976-11)-283205
100 ail Settlement Center	And International company, Khoroo #7, Micro-region #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350542 Fax: +(976-11)-350544
Ard Branch	On and On 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 Building, Micro-region #1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-681267 Fax: +(976-11)-680367
Moscow Branch	Bodi International L.L.C building, Enebish Street, Micro-region #4, 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	1st floor, Kherlen Trade Center, Natsagdorj Street, 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
120,000 Settlement Center	120 Myangat Service Center, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976-11)-70130080 Fax: +(976-11)-70120018
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, Zan International Building, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-311530, 311971 Fax: +(976-11)-70111352
Chandmani Settlement Center	Chandmani Center, Central Museum of Lenin, Chingeltei 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, Sunkhbaatar District, Ulaanbaatar	Tel: +(976-11)-77443232 Fax: +(976-11)-77443131
Songinokhairkhan Settlement Center	1st floor, Javkhlant Building, Khoroo#19, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-636205 Fax: +(976-11)-636217
Monnis Settlement Center	4th floor, Monnis Tower, Khoroo#4, Sunkhbaatar District, Ulaanbaatar	Fax: +(976-11)-321273
IBMUT Settlement Center	2nd floor, National Registration Office, Police Street, Khoroo #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350267
SHUTIS Settlement Center	1st floor, Central Campus, Mongolian University of Science and Technology, Khoroo #8, Baga-toiruu, Zaluuchuud Avenue, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-70111530

OFFICES IN AIMAGS

Name	Address	Contacts
Dornod Settlement Center	Khishig Agro L.L.C Building, Bag #7, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582)-22703 Fax: +(976-01-582)-22702
Dornod-Kherlen Settlement Center	1st floor, #24 building, Bag #6, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582-22704 Fax: +(976-01-582-22704
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 Building, Khoroo #3, Murun Soum, Khuvsgul Aimag	Tel: +(976-01-382)-21474 Fax: +(976-01-382)-21474
Umnugobi Branch	Bag #3, Dalanzadgad City, Umnu-Gobi Aimag	Tel: +(976-01-532)-23991 Fax: +(976-01-532)-23990
Khovd Branch	1st floor, The Bank of Mongolia Building, Tsambagarav Bag, Jargalant Soum, Khovd Aimag	Tel: +(976-01-432)-22195 Fax: +(976-01-432)-22195
Khovd-Bayanburd Settlement Center	1st floor, Bayanburd Center, Jargalant Bag, Jargalant soum, Khovd Aimag	Tel/Fax:+(976-01-432)-22175
Bayan-Ulgii Branch	Culture Center, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976-01-422)-22008 Fax: +(976-01-422)-22008
Bayan-Ulgii Settlement Center	1st floor, Armon Store, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976-01-422)-22008 Fax: +(976-01-422)-22001
Dornogobi Settlement Center	Vanjildorj's Building, Bag #1, Sainshand Soum, Dornogobi Aimag	Tel: +(976-01-522)-42792 Fax: +(976-01-522)-42792
Tsogttsetsii Settlement Center	#1-7, Yamaan Khuren Bag, Tsogttsetsii Soum, Umnu-Gobi Aimag	Tel: +(976-01-532)-26520
Khanbogd Settlement Center	2nd floor, Goyot 1-7 Building, Khanbogd Soum, Umnu-Gobi Aimag	Tel: +(976-01-522)-42792 Fax: +(976-01-522)-42792
Gurvan Tes Settlement Center	1st floor, Khurd Supermarket, Bag#4, Gurvan Tes Soum, Umnu-Gobi Aimag	Tel: +(976-01-534)-42266 Fax: +(976-01-534)-42244
Selenge Settlement Center	1st floor, Mongol Daatgal Building, Sukhbaatar Soum, Selenge Aimag	Tel/Fax:+(976-01)-013 6222318
Sukhbaatar Settlement Center	Monos Center, Bag #7, Baruun-Urt Soum, Sukhbaatar Aimag	Tel: +(976-01-512)-22006 Fax: +(976-01-512)-22005

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	GBRW, 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 Mongolia Audit LLC

Suite 200, 8 Zovkhis Building
Seoul Street 21
Ulaanbaatar 14251
Mongolia

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+976 11 312005
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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 2010 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 2010, 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
Executive Director

Ulaanbaatar, Mongolia
Date: 18 March 2011

GOLOMT BANK LLC
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2010

	Note	2010 MNT '000	2009 MNT '000
Interest and similar income	**3**	111,156,503	81,831,663
Interest and similar expenses	**4**	(81,448,479)	(57,904,932)
Net interest income		**29,708,024**	**23,926,731**
Fees and commission income	**5**	12,655,448	9,433,139
Fees and commission expenses	**5**	(2,742,830)	(2,165,341)
Net fees and commission income	**5**	**9,912,618**	**7,267,798**
Net trading income	**6**	83,843	188,892
Other operating income	**7**	6,752,622	5,819,115
Operating income		**46,457,107**	**37,202,536**
Operating expenses	**8**	(21,241,842)	(16,654,834)
Profit before credit loss expenses		**25,215,265**	**20,547,702**
Credit loss expense	**9**	982,594	(3,239,995)
Profit before taxation		**26,197,859**	**17,307,707**
Income tax expense	**10**	(6,145,111)	(4,138,119)
Profit for the year attributable to equity holder of the Bank		**20,052,748**	**13,169,588**
Other comprehensive income			
Available-for-sale financial assets:			
Losses arising during the year		(272,027)	(24,071)
Reclassification adjustment for losses included in the income statement on impairment		-	51,029
		(272,027)	26,958
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		**(272,027)**	**26,958**
Total comprehensive income for the year attributable to equity holder of the Bank, net of tax		**19,780,721**	**13,196,546**

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

GOLOMT BANK LLC
STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2010

	Note	2010 MNT '000	2009 MNT '000
ASSETS			
Cash and balances with central bank	**11**	138,054,713	157,871,951
Due from banks	**12**	249,898,638	216,511,438
Derivative financial instruments	**13**	4,486	-
Financial investments - available-for-sale	**14**	7,457,330	1,026,696
Financial investments - held-to-maturity	**14**	355,658,482	118,518,578
Financial investment - held-for-trading	**14**	345,472	-
Reverse repurchase agreement	**15**	3,997,668	-
Loans and advances to customers	**16**	784,604,947	505,298,994
Property, plant and equipment	**17**	24,508,983	5,347,809
Intangible assets	**18**	1,104,864	1,395,331
Other assets	**19**	8,300,854	7,138,078
TOTAL ASSETS		**1,573,936,437**	**1,013,108,875**
LIABILITIES			
Due to banks	**20**	80,833,669	52,931,634
Due to customers	**21**	1,317,499,322	795,251,008
Derivative financial instruments	**13**	1,506,132	381,425
Borrowed funds	**22**	28,386,592	62,594,970
Subordinated loans	**23**	42,964,281	14,219,900
Other liabilities	**24**	18,157,483	15,153,476
Repurchase agreement	**25**	-	7,732,840
Tax payable		791,405	826,790
TOTAL LIABILITIES		**1,490,138,884**	**949,092,043**
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK			
Ordinary shares	**26**	21,934,142	21,934,142
Available-for-sale reserve		(297,935)	(25,908)
Retained earnings		62,161,346	42,108,598
TOTAL EQUITY		**83,797,553**	**64,016,832**
TOTAL EQUITY AND LIABILITIES		**1,573,936,437**	**1,013,108,875**

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 2010

	Ordinary shares MNT '000	Available-for--sale Reserve MNT '000	Distributable Retained earnings MNT '000	Total MNT '000
At 1st January 2009	**21,934,142**	**(52,866)**	**28,939,010**	**50,900,110**
Total comprehensive income	-	26,958	13,169,588	13,196,546
At 31st December 2009 and 1st January 2010	**21,934,142**	**(25,908)**	**42,108,598**	**64,016,832**
Total comprehensive income	-	(272,027)	20,052,748	19,780,721
At 31st December 2010	**21,934,142**	**(297,935)**	**62,161,346**	**83,797,553**

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

GOLOMT BANK LLC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st DECEMBER 2010

	2010 MNT '000	2009 MNT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**26,197,859**	**17,307,707**
Adjustments for :-		
Depreciation of property, plant and equipment	1,873,137	1,770,395
Amortisation of intangible assets	976,622	826,428
Accredited interest expenses	129,165	84,681
Property, plant and equipment written off	12,505	5,598
Credit loss for loans and advances to customers	(984,302)	2,634,548
Credit loss for other assets	1,708	605,447
Changes in fair value of embedded derivatives	(45,769)	57,244
Changes in fair value of held-for-trading financial instrument	(78,084)	-
Gain on disposal of property, plant and equipment	(7,861)	(7,996)
Loss from sales of available-for-sale financial investments	8,156	-
Unrealised gain in currency forward contract	(4,486)	-
Impairment loss on foreclosed properties	666,837	305,173
Impairment loss on available-for-sale investment	-	51,029
Unrealised foreign exchange losses	1,273,765	1,526,228
Operating profit before working capital changes	**30,019,252**	**25,166,482**
Changes in operating assets:-		
Statutory deposit with Bank of Mongolia	(7,961,000)	(19,286,800)
Loans and advances to customers	(284,263,616)	(54,086,274)
Other assets	(1,831,321)	(3,308,102)
Changes in operating liabilities:-		
Due to banks	27,902,035	44,907,747
Due to customers	522,248,314	290,080,103
Other liabilities	6,046,149	7,705,560
Derivative financial instruments	-	675,861
Cash generated from operations	**292,159,813**	**291,854,577**
Income tax paid	(6,180,496)	(3,240,912)
Net cash flow generated from operating activities	**285,979,317**	**288,613,665**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial investments	(5,633,937,197)	(813,915,781)
Proceeds from disposal and maturity of financial investments	5,389,819,088	720,935,416
Purchase of reverse repurchase agreement	(3,997,668)	-
Proceeds on disposal of property, plant and equipment	33,552	182,032
Purchase of property, plant and equipment	(21,072,507)	(2,165,019)
Purchase of repurchase agreements	740,203,868	389,278,029
Proceeds from maturity of repurchase agreements	(747,936,708)	(397,209,440)
Purchase of intangible assets	(686,155)	(652,907)
Net cash flow used in investing activities	**(277,573,727)**	**(103,547,670)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of borrowed funds	9,303,161	41,716,804
Repayment of borrowed funds	(43,511,539)	(82,248,300)
Drawdown of subordinated loan	31,411,750	-
Net cash flow used in from financing activities	**(2,796,628)**	**(40,531,496)**
Net increase in cash and cash equivalents	**5,608,962**	**144,534,499**
Cash and cash equivalents brought forward	**355,096,589**	**210,562,090**
Cash and cash equivalents carried forward (Note 27)	**360,705,551**	**355,096,589**

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

1. CORPORATE INFORMATION

The Bank is principally engaged in the business of banking and financial services pursuant to License No. 8 issued by The 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 3 Sukhbaatar Square, 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 2010 were authorised for issue by the Board of Governors in accordance with a resolution of the Governors on 17 March 2011.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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 the symbol MNT, rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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 services and current account withdrawals. Fee and commission income is 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 exchange rates as at the dates of the initial transactions. Non-monetary items that are denominated in foreign currencies 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 a 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 embedded in other financial instruments are treated as 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 loans, 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 in '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 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 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 the investment 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) Debt issued and other borrowed funds

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss, are classified as liabilities under 'Debt issued and other borrowed funds', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of 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 when:

- 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:

Buildings	10 - 40 years
Leasehold improvements	10 years
Office equipment and vehicles	10 years
Computers	3 years

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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 are 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 in 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 in the statement of financial position. The corresponding cash paid, including accrued interest, is recognised in 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, performance and advance payment 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. The Bank also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Bank.

(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 - Additional Exemptions for First-time Adopters (Amendments)
* IFRS 2: Share-based payments - Group Cash-settled Share-based Payment Arrangements

2.3 CHANGE IN ACCOUNTING POLICIES (CONTD.)

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements
* IAS 7: Statement of Cash Flows
* IAS 17: Leases
* IAS 36: Impairment of Assets
* IAS 39: Financial Instruments: Recognition and Measurement
* IFRS 8: Operating Segments

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.

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

* IAS 24: Related Party Disclosures (Revised)
* IAS 32: Financial Instruments: Presentation - Classification of Rights Issue (Amendment)
* IFRS 1: First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
* IFRS 9: Financial Instruments
* IFRIC 14: Prepayments of a Minimum Funding Requirement (Amendment)
* IFRIC 19: Extinguishing Financial Liabilties with Equity Instruments

Improvements to International Financial Reporting Standards, which includes:

* IAS 1: Presentation of Financial Statements
* IAS 27: Consolidated and Separated Financial Statements
* IAS 34: Interim Financial Reporting
* IFRS 1: First-time Adoption of International Financial Reporting Standards
* IFRS 3: Business Combinations
* IFRS 7: Financial Instruments Disclosures
* IFRS 13: Customer Loyalty Programmes

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.

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

	2010 MNT '000	2009 MNT '000
Loans and advances to customers	90,557,465	73,915,148
Due from banks	2,587,310	1,467,808
Financial investments - available-for-sale	8,482	234
Financial investments - held-to-maturity	17,971,144	6,351,916
Reverse repurchase agreements	32,102	96,557
Total interest income from financial assets not designated at fair value through profit or loss	**111,156,503**	**81,831,663**

4. INTEREST AND SIMILAR EXPENSES

	2010 MNT '000	2009 MNT '000
Due to customers	74,742,974	48,193,352
Due to banks	1,255,566	902,039
Borrowed funds and subordinated loans	5,054,921	8,468,216
Repurchase agreements	265,853	256,644
Total interest expense from financial liabilities not designated at fair value through profit or loss	**81,319,314**	**57,820,251**
Others	129,165	84,681
	81,448,479	**57,904,932**

5. NET FEES AND COMMISSION INCOME

	2010 MNT '000	2009 MNT '000
Fees and commission income		
Account service fees and commissions	2,586,205	2,122,298
Card related fees and commissions	2,943,140	2,378,026
Credit related fees and commissions	3,365,603	2,018,257
Remittance and other service fees	3,760,500	2,914,558
	12,655,448	**9,433,139**
Fees and commission expenses		
Bank service expenses	(1,158,763)	(969,694)
Foreign currency charges	(11,594)	-
Card transaction expenses	(1,564,692)	(1,195,647)
Online transaction expense	(7,781)	-
	(2,742,830)	(2,165,341)
Net fees and commission income from financial assets not designated at fair value through Profit or loss	**9,912,618**	**7,267,798**

6. NET TRADING INCOME

	2010 MNT '000	2009 MNT '000
Equity	78,084	-
Unrealised gain in currency forward contract	4,486	-
Precious metal	1,273	12,577
Realised gain in currency forward contract	-	176,315
	83,843	**188,892**

"Equity" income includes the results of buying and selling, and changes in the fair value of equity securities.

7. OTHER OPERATING INCOME

	2010 MNT '000	2009 MNT '000
Changes in fair value of embedded derivative (Note 23)	45,769	(57,244)
Gain on disposal of property, plant and equipment	7,861	7,996
Realised foreign exchange gain	7,943,483	6,115,985
Unrealised foreign exchange loss	(1,273,765)	(1,526,228)
Other operating income	29,274	1,278,606
	6,752,622	**5,819,115**

8. OPERATING EXPENSES

	2010 MNT '000	2009 MNT '000
Advertising	982,118	702,439
Amortisation of intangible assets (Note 18)	976,622	826,428
Communications	568,789	543,052
Decoration	645,203	208,646
Depreciation of property, plant and equipment (Note 17)	1,873,137	1,770,395
Donations	88,850	18,677
Entertainment	635,580	253,658
Impairment loss on financial investments - available-for-sale	-	51,029
Impairment loss on foreclosed properties (Note 19)	666,837	305,173
Insurance	298,669	90,163
Loan collection expenses	190,332	173,006
Loss from sales of available-for-sale financial investments	8,156	-
Other operating expenses	466,719	266,995
Penalty	69,668	2,809
Professional fees	610,663	730,740
Property, plant and equipment written-off (Note 17)	12,505	5,598
Rental of premises	2,852,061	2,549,325
Repairs and maintenance	707,817	615,181
Safety expenses	578,854	487,595

8. OPERATING EXPENSES (CONT'D)

	2010 MNT '000	2009 MNT '000
Staff costs *	7,116,468	5,735,277
Stationery	595,569	517,085
Transportation	376,989	286,316
Travelling expenses	601,046	315,719
Utilities	209,499	199,480
Withholding tax	109,691	48
	21,241,842	**16,654,834**

*** Staff Costs**		
Salaries, wages and bonus	6,159,386	4,992,501
Contribution to social and health fund	643,445	543,415
Pension fund	50,150	-
Staff training	190,555	144,941
Staff benefits	72,932	54,420
	7,116,468	**5,735,277**

9. CREDIT LOSS EXPENSES

	2010 MNT '000	2009 MNT '000
Loans and advances to customers		
Corporate lending	794,015	178,862
Small business lending	(1,264,022)	547,598
Consumer lending	(384,152)	1,372,973
Residential mortgages	(130,143)	543,464
Others	-	(8,349)
	(984,302)	**2,634,548**
Other receivables (Note 19)	1,708	605,447
	(982,594)	**3,239,995**

10. INCOME TAX EXPENSE

	2010 MNT '000	2009 MNT '000
Current income tax:		
Based on results for the year	6,145,111	4,138,119

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% (2009: 10%) for the first MNT3 billion (2009: MNT3 billion) of taxable income, and 25% (2009: 25%) on the excess of taxable income over MNT3 billion (2009: 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.

10. INCOME TAX EXPENSE (CONT'D)

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:

	2010 MNT '000	2009 MNT '000
Profit before taxation	26,197,859	17,307,707
Tax at statutory tax rate of 25%	6,549,465	4,326,927
Effect of income subject to lower tax rate	(450,000)	(450,000)
Effect of income not subject to tax	(289,431)	(55,536)
Effect of expenses not allowable for tax purposes	335,077	316,728
Tax expense for the year	**6,145,111**	**4,138,119**

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

	2010 MNT '000	2009 MNT '000
Cash on hand	60,555,802	44,786,624
Current account with the central bank	77,498,911	113,085,327
	138,054,713	**157,871,951**

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 % (2009: 5.0%) of customer deposits for periods of 2 weeks. As at 31 December 2010, the average reserve required by Bank of Mongolia was MNT 30,651 million (2009: MNT 18,298 million) for local currency and MNT 23,845 million (2009: MNT 20,275 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

	2010 MNT '000	2009 MNT '000
Placements with other banks and financial institutions	240,349,466	216,511,438
Loans and advances	9,549,172	-
	249,898,638	**216,511,438**

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

Placement with other banks and financial institutions amounting to MNT42.50 million (2009: MNT52.95 million) is pledged to a bank as security for a loan as disclosed in Note 22.

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.

	2010 MNT '000	2009 MNT '000
Assets		
- Derivative held for trading - forward foreign currency exchange contract	4,486	-
Liabilities		
- Equity and currency derivatives (Note 23)	1,506,132	381,425
Notional amount		
Derivative held for trading		
- Forward foreign currency exchange contract	4,032,000	-

14. FINANCIAL INVESTMENTS

	2010 MNT '000	2009 MNT '000
Available-for-sale:		
Unquoted equities, at cost	3,712,922	837,370
Quoted equities, at fair value	3,744,408	189,326
	7,457,330	**1,026,696**
Held-to-maturity:		
The Bank of Mongolia treasury bills, at fair value	353,616,082	110,496,687
Unquoted government bond, at fair value	2,042,400	7,273,519
Promissory note	-	748,372
	355,658,482	**118,518,578**
Held-for-trading:		
Quoted equity, at fair value	345,472	-

The Bank of Mongolia treasury bills ("BOM bill") are interest bearing short-term bills with maturities of less than three months, and are issued at a discount. BOM bill amounting to MNT4.6 billion (2009: Nil) is pleged to the Bank of Mongolia as security to a debt assigned as disclosed in Note 22. Unquoted government bond is issued by The Ministry of Finance with maturity of 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 and Hong Kong Stock Exchange.

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

15. REVERSE REPURCHASE AGREEMENT

The financial asset is classified as held-to-maturity financial investment. As part of the reverse repurchase agreement, the Bank has received central bank's bill that it is allowed to sell. The bill bears term of 3 days and matured on 3 January 2011. The fair value of the bill approximates its carrying amount as at 31 December 2010.

16. LOANS AND ADVANCES TO CUSTOMERS

	2010 MNT '000	2009 MNT '000
Corporate lending	520,767,630	296,758,632
Small business lending	115,686,204	132,286,714
Consumer lending	66,215,273	11,466,561
Residential mortgages	80,108,644	37,592,629
Others	-	36,184,351
	782,777,751	514,288,887
Accrued interest receivables	12,044,815	9,051,510
Gross loans and advances	794,822,566	523,340,397
Less: Allowance for impairment losses	(10,217,619)	(18,041,403)
Net loans and advances	**784,604,947**	**505,298,994**

Impairment allowance for loans and advances to customers

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

At 31st December 2010	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 1st January 2010	9,950,883	5,535,479	1,993,320	561,648	73	18,041,403
Charge for the year	2,665,991	287,442	281,862	177,810	-	3,413,105
Recoveries	(1,871,976)	(1,551,464)	(666,014)	(307,953)	-	(4,397,407)
Reclassification	-	-	-	73	(73)	-
Amounts written off	(3,373,570)	(1,690,960)	(844,263)	(3,482)	-	(5,912,275)
Exchange difference	(674,487)	(227,420)	(8,696)	(16,604)	-	(927,207)
At 31st December 2010	**6,696,841**	**2,353,077**	**756,209**	**411,492**	**–**	**10,217,619**
Individual impairment	802,115	737,038	28,441	86,851	-	1,654,445
Collective impairment	5,894,726	1,616,039	727,768	324,641	-	8,563,174
	6,696,841	**2,353,077**	**756,209**	**411,492**	**–**	**10,217,619**
						-
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	9,758,334	4,094,121	148,263	581,756	-	14,582,474

16. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

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

At 31st December 2009	Corporate lending MNT '000	Small business lending MNT '000	Consumer lending MNT '000	Residential mortgages MNT '000	Others MNT '000	Total MNT '000
At 1st January 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

The fair value of the collateral that the Bank holds relating to loans individually determined to be impaired at 31st December 2010 amounts to MNT37.12 billion (2009: MNT47.04 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 31.

Collateral repossessed

During the year, the Bank took possession of buildings with carrying amounts as at 31 December 2010 of MNT 728,992,000 (2009: MNT 108,464,000). The Bank is in the process of selling these buildings.

17. PROPERTY, PLANT AND EQUIPMENT

At 31st December 2010	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Building in progress MNT'000	Total MNT '000
At cost					
At 1st January 2010	1,554,232	30,538	10,145,579	-	11,730,349
Additions	5,657,049	-	3,051,134	12,369,310	21,077,493
Disposals	-	-	(113,250)	-	(113,250)
Transfers	-	-	(4,986)	-	(4,986)
Write-offs (Note 8)	-	(30,538)	(1,139,194)	-	(1,169,732)
At 31st December 2010	**7,211,281**	**–**	**11,939,283**	**12,369,310**	**31,519,874**
Accumulated depreciation					
At 1st January 2010	433,918	30,538	5,918,084	-	6,382,540
Charge for the year (Note 8)	110,810	-	1,762,327	-	1,873,137
Disposals	-	-	(87,559)	-	(87,559)
Write-offs (Note 8)	-	(30,538)	(1,126,689)	-	(1,157,227)
At 31st December 2010	**544,728**	**–**	**6,466,163**	**–**	**7,010,891**
Net carrying amount	**6,666,553**	**–**	**5,473,120**	**12,369,310**	**24,508,983**

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

At 31st December 2009	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Building in progress 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**

18. INTANGIBLE ASSETS

Software and Licenses

	2010 MNT '000	2009 MNT '000
At cost		
At 1st January	3,490,343	2,837,436
Addition	686,155	652,907
At 31st December	**4,176,498**	**3,490,343**
Accumulated amortisation		
At 1st January	2,095,012	1,268,584
Charge for the year (Note 8)	976,622	826,428
At 31st December	**3,071,634**	**2,095,012**
Net carrying amount	**1,104,864**	**1,395,331**

19. OTHER ASSETS

	2010 MNT '000	2009 MNT '000
Other receivables	2,006,533	1,694,396
Less: Allowance for impairment losses	(628,913)	(628,801)
	1,377,620	**1,065,595**
Foreclosed properties	728,992	108,464
Less: Allowances for impairment losses	(669,510)	(2,673)
	59,482	**105,791**
Prepaid expenses	4,790,543	5,251,678
Consumables and other inventories	2,073,209	715,014
	6,863,752	**5,966,692**
	8,300,854	**7,138,078**
Impairment allowance for other receivables		
At 1st January	628,801	65,685
Charge for the year (Note 9)	1,708	605,447
Written off	(3,006)	(53,171)
Effect of exchange rate	1,410	10,840
At 31st December	**628,913**	**628,801**
Impairment allowance for foreclosed properties		
At 1st January	2,673	300,000
Charge for the year (Note 8)	666,837	305,173
Written off	-	(602,500)
At 31st December	**669,510**	**2,673**

20. DUE TO BANKS

	2010 MNT '000	2009 MNT '000
Deposits from other banks and financial institutions	80,833,669	52,931,634

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

21. DUE TO CUSTOMERS

	2010 MNT '000	2009 MNT '000
Government deposits		
- Current accounts	24,915,848	30,008,303
- Demand deposits	10,136,613	15,065,316
- Time deposits	4,756,924	28,994,561
Private sector deposits		
- Current accounts	393,842,596	128,736,786
- Demand deposits	14,962,745	22,948,742
- Time deposits	44,159,811	44,210,031
Individual deposits		
- Current accounts	46,073,147	26,629,333
- Demand deposits	268,326,454	194,523,794
- Time deposits	488,900,858	280,213,639
Other deposits		
- Current accounts	12,617,987	10,279,949
- Demand deposits	1,772,252	9,353,145
- Time deposits	7,034,087	4,287,409
	1,317,499,322	**795,251,008**

Included in 'Due to customers' were deposits of MNT 6.10 billion (2009: MNT 4.78 billion) held as collateral for irrevocable commitments under financial guarantees.

22. BORROWED FUNDS

	Effective Interest rate 2010 (%)	2010 MNT '000	2009 MNT '000
Direct Loans:			
EUR 316 thousand floating rate loan due 2011, **	6.87	461,299	589,986
USD 27.5 million fixed rate loan due 2010, *	12.00	-	40,515,886
MNT 4.6 billion fixed rate loan due 2014 **		4,666,500	-
		5,127,799	**41,105,872**

22. BORROWED FUNDS (CONTD.)

	Effective Interest rate 2010 (%)	2010 MNT '000	2009 MNT '000
Pass-through Loans:			
USD 3.3 million floating rate loan due 2010, *	4.09	-	23,085
MNT 910 million fixed rate loan due 2014, *	7.40	903,000	910,000
USD 0.6 million floating rate loan due 2014, *	1.60-2.10	753,882	865,704
USD 42.6 thousand fixed rate loan due 2019, *	2.00	53,572	-
USD 0.2 million fixed rate loan due 2019, *	2.00	229,771	308,208
USD 1.9 million floating rate loan due 2013, *	1.75-2.11	2,056,888	2,712,454
MNT 2.8 billion floating rate loan due 2019, *	4.80-5.90	5,802,623	5,577,955
MNT 1.2 billion fixed rate loan due 2011, *	10.00	239,400	519,600
MNT 3.9 billion fixed rate loan due 2019, *	7.00	3,798,568	3,574,340
Asian Development Bank floating rate loan, *	7.69-8.80	3,519,160	4,034,097
USD 0.84 million fixed rate loan due 2011, *	5.85	536,029	1,227,655
MNT 4.4 billion fixed rate loan due 2014 *	1.20	4,365,900	1,736,000
MNT 1.0 billion fixed rate loan due 2014 *	3.60	1,000,000	-
		23,258,793	**21,489,098**
Total		**28,386,592**	**62,594,970**

* 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 MNT4.6 billion fixed rate loan due in 2014 is secured by Bank of Mongolia treasury bill as referred to Note 14.

Asian Development Bank

The loan was disbursed to housing loan borrowers. The interest rate ranged from 7.69% to 8.80% (2009: 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.

23. SUBORDINATED LOANS

	2010 MNT '000	2009 MNT '000
Subordinated convertible loan from Credit Suisse	12,593,842	14,219,900
Subordinated convertible loan from Stanhope Investments	30,370,439	-
	42,964,281	**14,219,900**

23. SUBORDINATED LOANS (CONT'D)

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.

Subordinated convertible loan from Stanhope Investments

On 8 June 2010, the Bank signed a 5-year convertible loan agreement with Stanhope Investments with its head office at Abu Dhabi for granting of a subordinate loan of USD25 million with the following term:

(a) Conversion option - Stanhope Investments 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 Strike Price comprising the lower of MNT6,838.44 or the subscription price in any qualifying Initial Public Offer ("IPO") less any dividends as at the conversion date. If Stanhope Investments choose to redeem instead of convert (irregardless of the success of IPO), the Bank has to repay the loan in full on its repayment date (one week after 5 year from drawn down) and the sole shareholder of the Bank, Bodi International Co. shall pay Stanhope Investments a "Non-IPO Premium" which is equivalent to an internal rate of return of 15% per annum on the relevant principal amount from the date of drawdown less any interest received in respect of the loan.

(b) The loan bears interest at 4.5% above 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 2009	14,219,900	381,425	14,601,325
At 31st December 2010	42,964,281	1,506,132	44,470,413

As at 31st December 2010 and as at 31 December 2009, 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. The fair value of the embedded derivatives mainly came from the currency option as there is lack of available observable market data in Mongolia in particular related to the equity price, volatility of equity price and credit spread. Considerable number of inputs to the valuation technique came from the Bank specific input that might not reflect market expectations and measures of the risk-return factors inherent in the instrument. As a result the variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant and hence the management concluded that the fair value cannot be measured reliably.

24. OTHER LIABILITIES

	2010 MNT '000	2009 MNT '000
Payables	5,065,653	7,452,283
Foreign and domestic remittances held over	749,436	1,320,317
Clearing settlement held over	10,819,970	3,918,567
Deferred income	1,522,424	2,462,309
	18,157,483	**15,153,476**

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.

25. 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. The fair value of the bill approximate its carrying amount at 31 December 2009.

26. ORDINARY SHARES

	Number of shares		Amount	
	2010	2009	2010 MNT '000	2009 MNT '000
At 1st January/31st December	21,934,142	21,934,142	21,934,142	21,934,142

27. CASH AND CASH EQUIVALENTS

	Note	2010 MNT '000	2009 MNT '000
Cash and balances with central bank	11	138,054,713	157,871,951
Due from banks	12	249,898,638	216,511,438
		387,953,351	374,383,389
Less: Minimum reserve with Bank of Mongolia not available to finance the Bank's day to day operations (refer Note 11)		(27,247,800)	(19,286,800)
Total cash and cash equivalents		**360,705,551**	**355,096,589**

28. 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:

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

At 31st December 2010	Level 1 MNT '000	Level 2 MNT '000	Level 3 MNT '000	Total MNT '000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contract	-	4,486	-	4,486
Other financial asset held-for-trading				
Quoted equity	345,472	-	-	345,472
Financial investment available-for-sale				
Quoted equities	3,744,408	-	-	3,744,408
Total	**4,089,880**	**4,486**	**–**	**4,094,366**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	1,506,132	1,506,132

At 31st December 2009	Level 1 MNT '000	Level 2 MNT '000	Level 3 MNT '000	Total MNT '000
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

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.

Equity and currency Derivatives

Equity and currency derivative products are valued using a valuation technique with non-market observable inputs. 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 2010 MNT '000	Total gains recorded in profit or loss MNT '000	Purchases MNT '000	At 31st December 2010 MNT '000
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	(381,425)	45,769	(1,170,476)	(1,506,132)
Total level 3 financial liability	**(381,425)**	**45,769**	**(1,170,476)**	**(1,506,132)**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Movements in level 3 financial instruments measured at fair value (contd.)

	At 1st January 2009 MNT '000	Total gains recorded in profit or loss MNT '000	Purchases MNT '000	At 31st December 2010 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:

	2010 Unrealised gains MNT '000	2009 Unrealised (losses) MNT '000
Total gains or (losses) included in the profit or loss for the period	45,769	(57,244)

Transfers between level 1 and 2

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

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument.

	31 December 2010		31 December 2009	
Financial liability	Carrying amount MNT '000	Effect of reasonably possible alternative assumptions MNT '000	Carrying amount MNT '000	Effect of reasonably possible alternative assumptions MNT '000
Derivative financial instruments				
Equity and currency derivatives	(2,059,699)	(553,567)	(332,469)	48,956

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable models inputs of the currency option, which is the risk free rate in Mongolia. The adjustment made was to increase or decrease the risk free rate used in the valuation model from within the range of 2.5%.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

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 30 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 2010 MNT '000	Fair value 2010 MNT '000	Carrying amount 2009 MNT '000	Fair value 2009 MNT '000
Financial assets					
Cash and balances with central bank	11	138,054,713	138,054,713	157,871,951	157,871,951
Due from banks	12	249,898,638	249,898,638	216,511,438	216,511,438
Financial investment - held-to-maturity					
The Bank of Mongolia treasury bills	14	353,616,082	353,616,082	110,496,687	110,496,687
Unquoted government bond	14	2,042,400	2,042,400	7,273,519	7,273,519
Promissory note	14	-	-	748,372	748,372
Loans and advances to customers	16	784,604,947	788,723,379	505,298,994	506,437,576
Other receivables	19	1,377,620	1,377,620	1,065,595	1,065,595
		1,529,594,400	**1,533,712,832**	**999,266,556**	**1,000,405,138**
Financial liabilities					
Due to banks	20	80,833,669	80,833,669	52,931,634	52,931,634
Due to customers	21	1,317,499,322	1,317,499,322	795,251,008	795,251,008
Borrowed funds	22	28,386,592	28,386,592	62,594,970	62,594,970
Subordinated loans	23	42,964,281	42,964,281	14,219,900	14,219,900
Other liabilities, excluding deferred income	24	16,635,059	16,635,059	12,691,167	12,691,167
Repurchase agreement	25	-	-	7,732,840	7,732,840
		1,486,318,923	**1,486,318,923**	**945,421,519**	**945,421,519**

29. 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 statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2010 MNT '000	2009 MNT '000
Contingent liabilities		
Financial guarantees	8,977,329	10,751,333
Letters of credit	26,818,480	23,941,432
Performance guarantees	47,908,177	28,885,510
	83,703,986	**63,578,275**

	2010 MNT '000	2009 MNT '000
Commitments		
Undrawn commitments to lend	27,142,064	11,748,372
Total	**110,846,050**	**75,326,647**

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 a contingent nature. No material losses are anticipated as a result of these transactions.

Undrawn commitments 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

	2010 MNT '000	2009 MNT '000
Approved and contracted for:		
Property, plant and equipment	733,897	37,027
Intangible assets	33,253	121,156
	767,150	**158,183**

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.

30. 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 31.3 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

At 31st December 2010	Less than 12 months MNT '000	More than 12 months MNT '000	Total MNT '000
Financial assets			
Cash and balances with central bank	138,054,713	-	138,054,713
Due from banks	249,856,142	42,496	249,898,638
Derivative financial instruments	4,486	-	4,486
Financial investments -			
- available-for-sale	7,457,330	-	7,457,330
- held-to-maturity	355,658,482	-	355,658,482
- held-for-trading	345,472	-	345,472
Reverse repurchase agreement	3,997,668	-	3,997,668
Loans and advances to customers	324,872,400	459,732,547	784,604,947
Other receivables	1,377,620	-	1,377,620
	1,081,624,313	**459,775,043**	**1,541,399,356**
Non financial assets			
Property, plant and equipment	-	24,508,983	24,508,983
Intangible assets	-	1,104,864	1,104,864
Other assets	-	6,923,234	6,923,234
	-	**32,537,081**	**32,537,081**
Total	**1,081,624,313**	**492,312,124**	**1,573,936,437**
Financial liabilities			
Due to banks	80,833,669	-	80,833,669
Due to customers	1,314,660,351	2,838,971	1,317,499,322
Derivative financial instruments	1,506,132	-	1,506,132
Borrowed funds	3,930,557	24,456,035	28,386,592
Subordinated loans	98,330	42,865,951	42,964,281
Other liabilities	16,635,059	-	16,635,059
	1,417,664,098	**70,160,957**	**1,487,825,055**
Non financial liabilities			
Deferred income	1,522,424	-	1,522,424
Tax payable	791,405	-	791,405
	2,313,829	-	**2,313,829**
Total	**1,419,977,927**	**70,160,957**	**1,490,138,884**
Net	**(338,353,614)**	**422,151,167**	**83,797,553**

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

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	-	5,347,809	5,347,809
Intangible assets	-	1,395,331	1,395,331
Other assets	-	6,072,483	6,072,483
	-	**12,815,623**	**12,815,623**
Total	**828,872,854**	**184,236,021**	**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	**(88,982,169)**	**152,999,001**	**64,016,832**

31. RISK MANAGEMENT

31.1 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.

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 20% of the capital of the Bank.

(ii) The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed 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.

31.2 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.

GOLOMT BANK

31. RISK MANAGEMENT (CONTD.)

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.

	Note	Gross maximum exposure 2010 MNT '000	Gross maximum exposure 2009 MNT '000
Cash and balances with central bank (excluding cash on hand)	**11**	77,498,911	113,085,327
Due from banks	**12**	249,898,638	216,511,438
Derivative financial instruments	**13**	4,486	-
Financial investments - available-for-sale	**14**	7,457,330	1,026,696
Financial investments - held-to-maturity	**14**	355,658,482	118,518,578
Financial investments - held-for-trading	**14**	345,472	-
Reverse repurchase agreement	**15**	3,997,668	-
Loans and advances to customers	**16**	784,604,947	505,298,994
Other receivables	**19**	1,377,620	1,065,595
Total		**1,480,843,554**	**955,506,628**
Contingent liabilities	**29**	83,703,986	63,578,275
Commitments	**29**	27,142,064	11,748,372
Total		**110,846,050**	**75,326,647**
Total credit risk exposure		**1,591,689,604**	**1,030,833,275**

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 details 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 2010 was MNT35,932 million (2009: MNT 30,198 million).

Apart from deposits and placements with other banks and financial institutions amounting to MNT189,727 million (2009: MNT195,162 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 2010 MNT '000	**Gross maximum exposure 2009 MNT '000**
Agriculture	18,957,486	6,199,095
Construction	65,441,303	49,583,201
Consumers	150,250,984	69,982,834
Education	4,522,363	6,087,277
Electricity and oil	29,156,678	24,820,421
Financial services	725,808,819	464,983,698
Healthcare	6,664,384	4,415,462
Home business	467,443	66,737
Hotel and restaurants	16,861,982	8,734,404
International organisations	-	14,701
Maintenance	5,764,651	3,264,542
Manufacturing	74,088,332	54,219,674
Mining and exploration	133,588,123	91,819,017
Public service	-	4,186,392
Real estate	35,971,657	21,300,503
Social services	15,806,291	2,039,588
Tourism	18,169,791	967,044
Transportation and communications	39,704,891	20,465,886
Wholesale and Retail	119,042,709	110,844,786
Other	20,575,667	11,511,366
	1,480,843,554	**955,506,628**

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 by 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.

31. RISK MANAGEMENT (CONTD.)

31.2 Credit risk (Contd.)

Credit quality by class of financial assets

As 31st December 2010	Note	Neither past due nor impaired High grade MNT '000	Standard grade MNT '000	Sub-standard grade MNT '000	Past due or individually impaired MNT '000	Total MNT '000
Due from banks	12	129,380,712	47,728,663	72,789,263	-	249,898,638
Derivative financial instrument	13	4,486	-	-	-	4,486
Financial investments						
- available-for-sale	14	-	4,053,873	-	3,403,457	7,457,330
- held-to-maturity	14	355,658,482	-	-	-	355,658,482
- held-for-trading	14	-	345,472	-	-	345,472
						-
Reverse repurchase agreement	15	3,997,668	-	-	-	3,997,668
Loans and advance to customers						
Corporate lending	16	399,715,064	73,303,926	40,648,733	15,697,475	529,365,198
Small business lending	16	83,523,150	6,446,493	12,886,970	13,958,752	116,815,365
Consumer lending	16	55,439,572	734,213	8,452,644	3,209,128	67,835,557
Residential mortgages	16	53,965,087	13,367,225	8,032,477	5,441,657	80,806,446
		592,642,873	**93,851,857**	**70,020,824**	**38,307,012**	**794,822,566**
Total		**1,077,682,067**	**145,634,393**	**142,810,087**	**41,710,469**	**1,407,837,016**

As 31st December 2009	Note	Neither past due nor impaired High grade MNT '000	Standard grade MNT '000	Sub-standard grade MNT '000	Past due or individually impaired MNT '000	Total MNT '000
Due from banks	12	108,698,757	105,391,608	2,421,073	-	216,511,438
Financial investments						
- available-for-sale	14	-	837,370	-	189,326	1,026,696
- held-to-maturity	14	118,518,578	-	-	-	118,518,578
Loans and advance to customers						
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	15	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**

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.

31. RISK MANAGEMENT (CONTD.)

31.2 Credit risk (Contd.)

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

At 31st December 2010	Less than 30 days MNT '000	31 to 60 days MNT '000	61 to 90 days MNT '000	More than 91 days MNT '000	Total MNT '000
Loans and advances to customers					
Corporate lending	-	2,654,601	-	3,284,539	5,939,140
Small business lending	2,806,062	1,545,344	1,954,785	3,558,440	9,864,631
Consumer lending	1,769,288	184,363	170,095	937,119	3,060,865
Residential mortgages	1,572,475	1,423,417	723,851	1,140,159	4,859,902
	6,147,825	**5,807,725**	**2,848,731**	**8,920,257**	**23,724,538**
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**

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 2010 was MNT 72.60 billion (2009: MNT 374.48 billion). See 'Collateral and other credit enhancements' under Note 31.2 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.

	2010 MNT '000	2009 MNT '000
Loans and advances to customers		
Corporate lending	23,517,195	11,212,951
Small business lending	7,310,836	12,831,423
Consumer lending	8,398,273	43,748
Residential mortgages	610,944	442,327
Others	-	77,843
	39,837,248	**24,608,292**

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.

31. RISK MANAGEMENT (CONTD.)

31.2 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.

31.3 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 stressed 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% (2009: 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:

	2010 %	2009 %
31st December	51.2%	51.7%
Average during the period	45.2%	44.8%
Highest	51.2%	57.2%
Lowest	38.1%	35.4%

31. RISK MANAGEMENT (CONTD.)

31.3 Liquidity risk (Contd.)

The table below summarises the maturity profile of the Bank's financial liabilities at 31st December 2010 and 31 December 2009 based on contractual undiscounted repayment obligations. See Note 30 '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 2010						
Due to banks	70,762,777	6,727,307	4,025,713	-	-	81,515,797
Due to customers	898,566,566	185,758,421	262,309,950	3,596,516	-	1,350,231,453
Borrowed funds	1,721,579	1,126,219	2,061,345	17,569,376	10,625,097	33,103,616
Subordinated loan	494,296	465,154	930,308	49,608,196	-	51,497,954
Other liabilities, excluding deferred income	13,494,041	477,002	2,706,749	-	-	16,677,792
		-	-	-	-	
Total	**985,039,259**	**194,554,103**	**272,034,065**	**70,774,088**	**10,625,097**	**1,533,026,612**
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 loans	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**

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 2010						
Contingent liabilities	61,298,639	11,161,552	9,760,020	1,483,775	-	83,703,986
Commitments	15,714	8,518,961	12,700,887	5,906,502	-	27,142,064
Total	**61,314,353**	**19,680,513**	**22,460,907**	**7,390,277**	**–**	**110,846,050**
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**

31. RISK MANAGEMENT (CONTD.)

31.4 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 2010 and 31 December 2009.

Currency	Change in basis points	Sensitivity of net interest income MNT'000
At 31st December 2010		
USD	+120	(626,485)
MNT	+120	(441,414)
USD	-120	626,485
MNT	-120	441,414
At 31st December 2009		
USD	+120	(318,074)
MNT	+120	(384,602)
USD	-120	318,074
MNT	-120	384,602

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
2010 – 31st December	129,230	133,856	160,262
2010 - Average Daily	147,612	148,882	190,809
2010 - Highest	342,395	347,259	408,306
2010 - Lowest	43,671	44,471	53,374
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

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:

31. RISK MANAGEMENT (CONTD.)

31.4 Market risk (Contd.)

	"Effect on net interest income" 2010 MNT 'mil	"Effect on net interest income" 2009 MNT 'mil
Loans and advances to customers		
Corporate	(880)	(537)
SME	(350)	(190)
Consumer	(109)	(54)
Mortgage	(104)	-
Others	-	(287)
	(1,443)	**(1,068)**

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.

32. 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.

32. RELATED PARTY DISCLOSURES (CONTD.)

	2010 MNT '000	2009 MNT '000
a) Loans and advances to related companies:		
Bodi Automative Co.Limited (Fellow subsidiary)	3,617,832	2,340,000
Bodi Electronics Co.Limited (Fellow subsidiary)	1,705,030	718,965
Bodi Properties Co.Limited (Fellow subsidiary)	-	2,776,024
Sar Shine International Co.Limited (Fellow subsidiary)	1,370,007	1,928,249
Honka Log Home Co.Limited (Fellow subsidiary)	67,289	1,083,276
Mongol Leasing Co.Limited (Fellow subsidiary)	1,856,400	2,029,133
	8,616,558	**10,875,648**

The loans and advances to fellow subsidiaries were secured, bore interest rates from 12.00% to 21.60% (2009: 10.68% to 24.00%) per annum and are repayable within one to six years. The interest income received from such loans during the financial year amounted to MNT 1,361.30 million (2009: MNT 806.69 million).

	2010 MNT '000	2009 MNT '000
b) Deposits from related companies:		
Holding company	85,522	355,311
Fellow subsidiaries	3,379,024	1,769,709
	3,464,546	**2,125,020**

The deposits from the above related companies bore interest rates from 0% to 10.80% (2009: 0% to 10.44%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 139 million (2009: MNT 35 million).

	2010 MNT '000	2009 MNT '000
c) Purchase of computers and software from fellow subsidiaries	335,569	191,273

	2010 MNT '000	2009 MNT '000
d) Purchase of buildings from related companies:		
Bodi International Co. Limited (Holding Company)	5,613,216	-
Bodi Properties Co.Limited (Fellow subsidiary)	10,219,680	-
Honka Log Home Co.Limited (Fellow subsidiary)	2,149,630	-
	17,982,526	-

	2010 MNT '000	2009 MNT '000
e) Compensation of key management personnel		
Short-term employee benefits		
Salaries	299,054	104,004
Contribution to social and health fund	36,567	21,841
	335,621	**125,845**

f) Lease agreement with Bodi International Co. Limited

In November 2002, the Bank moved to its Head Office located at 3 Sukhbaatar Square, 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. On 5 October 2010, the Bank purchased Moscow Branch from the holding company as referred to Note 32(d).

In 2009, 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 2010, the balance of prepayment is MNT2.4 billion (2009: MNT3.22 billion and MNT841.32 million respectively). Further details of the lease arrangements are disclosed in Note 29.

33. 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 with 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.

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 6% (2009: 6%) and risk weighted capital ratio of at least 12% (2009: 12%), 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 were as follows:

	2010	**2009**
Core capital ratio	8.85%	10.91%
Risk weighted capital ratio	13.47%	13.36%

	2010 MNT '000	**2009 MNT '000**
Tier I capital		
Ordinary shares	21,934,142	21,934,142
Retained earnings	62,161,346	42,108,598
Total Tier I Capital	**84,095,488**	**64,042,740**
Tier II capital		
Subordinated loans	43,976,450	14,428,400
Total capital /capital base	**128,071,938**	**78,471,140**

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

%	2010 Assets MNT '000	2010 Risk Weighted MNT '000	2009 Assets MNT '000	2009 Risk Weighted MNT '000
0	477,360,275	-	264,506,870	-
20	230,662,704	46,132,541	245,472,675	49,094,535
50	127,035,722	63,517,861	66,211,173	33,105,587
100	832,133,598	832,133,598	505,034,385	505,034,385
150	5,951,836	8,927,754	-	-
Total	**1,673,144,135**	**950,711,754**	**1,081,225,103**	**587,234,507**

34. COMPARATIVES

The following comparative amounts have been reclassified to conform with current year's presentation.

Description of Change	Previously Stated MNT '000	Increase/ (Decrease) MNT '000	Restated MNT '000
Statement of comprehensive income			
Fees and commission income	10,580,138	(1,146,999)	9,433,139
Interest and similar expenses	57,904,980	(48)	57,904,932
Net trading income	12,577	176,315	188,892
Other operating income	4,905,675	913,440	5,819,115
Operating expenses	16,712,030	(57,196)	16,654,834

35. 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.