

# Content

<b>MESSAGE FROM THE CHAIRMAN OF THE GOVERNING BOARD</b>	<b>3</b>
<b>MESSAGE FROM THE PRESIDENT AND CEO</b>	<b>4</b>
<b>SOCIAL AND ECONOMIC CONDITIONS OF MONGOLIA</b>	<b>7</b>
Key macroeconomic indicators of Mongolia	7
Gross domestic products	8
State consolidated budget	10
Monetary market, banking and financial sector	11
<b>OUR VISION, MISSION AND OBJECTIVES</b>	<b>14</b>
<b>SCHEME OF ORGANIZATIONAL STRUCTURE</b>	<b>15</b>
<b>GOLOMT BANK IN THE REPORTING YEAR</b>	<b>18</b>
Non-business activities	18
<i>Human Resource Report</i>	18
<i>Information Technology Report</i>	20
<i>Society oriented Measures</i>	21
Business activities	22
<i>Bank branches and settlement centers</i>	22
<i>E-bank</i>	24
<i>Current account and savings services</i>	24
<i>Card services</i>	25
<i>Loan services</i>	26
<i>International relations and cooperation</i>	29
Indicators of financial performance	30
<i>Performance of budget plan and financial objectives</i>	30
<i>Changes in and movement of assets</i>	31
<i>Changes in and movement of liabilities</i>	32
<i>Profitability</i>	33
Risk management	33
<i>Loan related risk</i>	34
<i>Market risks</i>	35
<i>Operational risks</i>	36
<b>LIST OF PRODUCTS AND SERVICES</b>	<b>37</b>
<b>ADDRESSES AND LOCATIONS OF BANK BRANCHES AND SETTLEMENT CENTERS</b>	<b>38</b>
<b>EXTERNAL AUDIT REPORT</b>	<b>39</b>



# Chairman of the Governing Board



Dearest shareholders, customers, business partners,  
and employees,

I would like to express my deepest gratitude for  
your confidence and cooperation, and wish you  
every success in your business and work. May our  
cooperation further develop and expand and your  
life be prosperous in the future!

A handwritten signature in black ink, appearing to be 'B. Luvsanvandan', written in a cursive style.

**Boldhuyag Luvsanvandan**  
*Chairman of the Governing Board*

# President and Chief Executive Officer

Dearest Shareholders, Customers and Colleagues,

On behalf of our Board of Directors and management team, I am extremely delighted to present the Annual report of the Golomt Bank's full of successes with achieving of targeted goals and implementing our plans, advancing by learning from global experience, establishing a closer link to our customers through expansion of our activities and overall productivity.

The 2006 was a fruitful year for the Golomt Bank which reinforced its successes of previous years and turned the new pages of the coming years with great enthusiasm.

We maintained our leading position in the banking and financial sector of Mongolia, and continued our policy to diversify, improve, expand products and services offered to our dear customers. As a result, the total asset of our bank has grown by 29% from the last year and reached 352 billion togrogs. Furthermore, we have paid around 1.3 billion togrogs to the national budget and earned a net profit worth 2.5 billion togrogs.

Considering the permanent growth of bank assets, sharp increase in our customers and the bank's business capacity, our shareholders increased the paid capital of the bank by 8.5 billion togrogs in order to improve the bank's risk-taking capacity and expand relations with both international and domestic organizations. Through this addition, the total equity reached to 35 billion at the end of the fiscal year and our customers were enabled to receive various banking services at the same time and avenues for stable banking service for a longer period were expanded and international relations of the bank was significantly improved.

In our services, we have been paying an extraordinary attention to broadening and reaching out our customers through our services by constantly exploring the demand of people, researching the product and services the most needed, introducing new products, and actively participating in projects solicited and/or implemented by Governments of

developed countries, international organizations. For instance, last year, we have established the Loan Center specially to support loans provided to Small and Medium Enterprises. The Center is dedicated to process the loan application in the shortest possible time, to adjust the loan condition to the reality of SME owners, improve the condition and procedures of loan processing, and consequently, the total loan portfolio for SME amounted to 41 billion togrogs – a 73% increase from the previous year. Also, in 2006, our bank was selected as one of the 6 banks to participate in the long term loan project for “Promoting Small and Medium Enterprises and protecting the nature” implemented by the Government of Mongolia and funded by the Japan Bank of International Cooperation. Within the framework of this project, Golomt Bank started providing loans between 10,000-600,000 USD for the period of 3 to 10 years at the interest rate of 11.46% if in Mongolian togrogs and 9.93% in USD. Furthermore, our bank signed on the contract Project “Green Loan” in order to support improve the energy efficiency using energy saving equipments and technology and to promote the investment in the pure production to decrease adverse impact upon nature and environment, at the funding of the Government of the Netherlands enabling business entrepreneurs in this sector to have more access to loans. Within this project, the Bank provides loans up to 30 to 40 million togrogs for 3 years term at the annual interest rate of 16%.

Banking and financial sector of Mongolia is rapidly developing as new technologies are continuously introduced into the market. The Golomt bank leads in keeping pace with this rapid development, in offering its customers products and services of international banking standards and providing more efficient and reliable settlement as well as its automatization. The bank installed and operates Automatic Teller Machines for self-help in major spots in Ulaanbaatar city. By diversifying card products, the bank has issued new types of card and sold 66 thousand cards in the fiscal year. For example, we issued MIAT Mileage Co-Brand Card jointly with MIAT Co, Ltd (Mongolian Civil Airline Transport Company), Airnetwork Mileage Golden Card jointly with Airnetwork Co,

As a result, the total asset of our bank has grown by 29% from the last year and reached 352 billion togrogs.

**D.BAYASGALAN**, PRESIDENT AND CEO



Ltd and Torino-2006 Visa Card to promote Mongolian athletes who participated in Winter Olympic Games in Turin, Italy. Consequently, we sold 66 thousand cards for the fiscal year and the total number of card-holders amounted to 209,000 - the proof that card service is tenaciously expanding.

As result of all these improvements, robust advances were made in all financial indicators of the bank and both interest and non-interest income reached to 31.7 billion togrogs and increased the bank's profitability. As the bank's profitability grows and its activities expand, it is one of the main and obvious principles of management to improve the risk management on all levels of the bank operation. Therefore, we have taken a serious of measures to improve our risk management and introduced the Basel Committee methodology, principles, approaches and experiences. Thus, our team become better equipped to comprehensively manage, measure, and monitor the growth of the bank and we have planned and started to undertake wide-range activities to sophisticate the risk management at all levels of the bank.

As the financial and banking sector rapidly grows, there is a growing trend among customers to prefer high quality service with greater confidence rather than cheaper price for the service. Throughout the last year, we put a highest priority to our customers and, we renovated the Card Service Center and Premiere Banking Office according to the highly innovative interior design in 2006 within this framework. Henceforth, these units are offering banking services to our clients in a more comfortable environment in a separate area for each customer which was vastly appreciated by our customers.

Our team at the Golomt Bank, is strongly confident that the year 2007 will be another year of prosperity and progress for our bank adding another historical page of success stories. For 2007, we are planning to strengthen our existing relationship with our clients, attract more customers, to provide loans to

SME and citizens, and more efficient services to customers through multiple service channels using the advanced information and communication technologies. These include the introduction of SELF banking spots where customers can print out their account balance, make payments, receive information on exchange rate and other services 24 hours; broaden the mobile banking or banking services through mobile phone; synchronization between card service and both current and savings accounts; account opening through internet; conduct transactions of all type among other tasks.

Finally, allow me to express our deepest and sincerest gratitude to all our customers, business partners and all colleagues of the bank who together created this progress and success. I am fully confident that our successful cooperation will continue to develop into broader framework and deeper significance as many years it ventures and our country will prosper. For those who are welcoming new days of enthusiasm, progress, and cheerful future with Golomt Bank, let me wish you all the best!

With best wishes,

A handwritten signature in black ink, appearing to read 'D. Bayasgalan', with a long, sweeping underline stroke extending to the right.

**D. Bayasgalan**  
*President and CEO*

# Social and Economic Conditions of Mongolia

## KEY MACRO ECONOMIC INDICATORS OF MONGOLIA

Indicators	2000	2001	2002	2003	2004	2005	2006
<b>Macro Economic Indicators</b>							
Growth in GDP /percentage/	1.1	1.1	4.0	5.6	10.7	7.0	8.4
Agriculture	- 15.9	- 18.3	- 12.5	4.9	17.7	9.6	9.7
Industry	0.7	15.4	4.1	5.9	14.5	1.2	7.9
Services	15.3	6.2	11.8	6.6	6.6	8.3	8.1
GDP per capita /thousand togrogs/	426.2	460.1	504.6	586.9	758.7	888.4	1 222.9
GDP per capita /US dollar/	396.0	419.1	454.5	511.9	640.1	737.0	1 036.8
Changes in consumer prices at the end of the year	8.1	8.0	1.6	4.7	11.0	9.5	6.0
Changes in total cash /M2/	17.6	27.9	42.0	49.6	20.4	38.1	34.8
<b>Policy indicators</b>							
<b>Budget, billion togrogs</b>							
Amount of Total Income and Aid	351.0	439.3	477.1	553.9	713.1	837.9	1 353.2
Operating income	346.2	430.0	469.8	545.2	706.3	832.6	1 346.8
Amount of total expenditures and net loans	429.7	489.9	550.5	615.8	752.5	764.6	1 228.7
- Expenses of Assets	52.1	59.1	68.1	90.5	104.9	89.8	177.5
Operating expenses	314.1	366.8	415.3	434.8	538.7	600.3	978.5
Operating balance	32.1	63.1	54.4	110.4	167.6	232.3	368.4
Total balance	- 78.7	- 50.6	- 73.4	- 61.9	- 39.4	73.3	124.5
<b>Budget, share in GDP</b>							
Amount of Income and Aid	34.5	39.4	38.4	37.9	37.3	37.0	42.7
Operating Income	34.0	38.5	37.9	37.3	37.0	36.7	42.5
Amount of total expenditures and net loans	42.2	43.9	44.4	42.1	39.4	33.7	38.7
- Expenses of Assets	5.1	5.3	5.5	6.2	5.5	4.0	5.6
Operating Expenses	30.8	32.9	33.5	29.8	28.2	26.5	30.8
Operating Balance	3.2	5.7	4.4	7.6	8.8	10.2	11.6
Total balance	- 7.7	- 4.5	- 5.9	- 4.2	- 2.1	3.2	3.9
<b>Balance of Foreign trade /million US dollars</b>							
Percentage of GDP	-14.8	-16.7	- 20.5	- 14.5	-9.4	- 6.3	1.5
Export	535.8	523.2	523.9	615.9	869.7	1 064.9	1 528.8
Growth in percentage	17.9	- 2.4	0.1	17.6	41.2	22.4	43.6
Import /number of payment balances	675.9	693.1	752.8	801.0	1 021.2	1 184.3	1 489.2
Growth in percentage	19.1	2.6	8.6	6.4	27.5	16.0	25.7
<b>Net Foreign Exchange Resources (million US dollars)</b>	140.7	160.1	225.9	129.0	163.6	298.0	687.3
<b>Import needs coverage by weeks</b>	10.8	12.0	15.6	8.4	8.3	13.1	24.0
<b>Basic Indicators</b>							
GDP in prices of appropriate years /billion togrogs	1 018.9	1 115.6	1 240.8	1 461.2	1 910.9	2 266.5	3 172.4
Exchange rate at the end of the year /1US dollar=togrogs	1 097.0	1 102.0	1 125.0	1 168.0	1 209.0	1 221.0	1 165.0
Annual average exchange rate /1US dollar = togrogs	1 076.4	1 097.7	1 110.3	1 146.5	1 185.3	1 205.3	1 179.5
Average population, thousand inhabitants	2 390.5	2 425.0	2 459.0	2 489.7	2 518.6	2 551.3	2 594.1
Rate of unemployment	4.6	4.6	3.4	3.5	3.6	3.3	3.2
GDP in million US dollars	946.6	1 016.3	1 117.5	1 274.5	1 612.1	1 880.4	2 689.6

## GROSS DOMESTIC PRODUCTS

Percentage of sectors in GDP	2000	2001	2002	2003	2004	2005	2006
Gross domestic products (in prices of appropriate year, in billion)	1 018.9	1 115.6	1 240.8	1 461.2	1 910.9	2 266.5	3 172.4
Agriculture, forestry,	29%	25%	21%	20%	21%	22%	19%
Mining and exploring industry	12%	9%	10%	13%	19%	20%	30%
Processing industry	6%	8%	6%	6%	5%	4%	6%
Power and production, water supply	2%	3%	4%	3%	3%	3%	3%
Construction	2%	2%	2%	3%	2%	2%	2%
Wholesale and retail trade, household goods	24%	27%	28%	26%	24%	25%	19%
Transport, warehousing and communications	11%	13%	15%	14%	13%	12%	11%
Activities related to Financial servicing	2%	3%	3%	4%	4%	4%	3%
Others	11%	10%	11%	10%	9%	7%	8%

Gross Domestic Product of Mongolia reported on increase of 8.4 percent or 113 billion togrogs in 2006 compared to the previous year and reached 3.2 trillion togrogs in prices of the same fiscal year. Thus economic growth improved by 1.4 percentage points compared to the previous year. Out of the 8.4 percent growth in GDP, 2 percentage points were due to an increase in Agriculture sector, 2 percentage points in production, 4.4 percentage points in service sector.

Major factors which had a significant impact on the economic growth included an increase in prices for major export commodities on world markets such as copper and gold; favourable weather conditions resulting in a sustainable rise in agricultural production; an increase in state tax income; budget consumption based on foreign loans; an increase in investments; growth in population, salaries and wages, and the labour force; growth in household consumption followed by money transfers coming from abroad; profits created by economic entities; a substantial increase in investments by economic entities based on foreign investments and loans provided by the banking sector for instance to the agricultural, service, mining, construction, communication, and transport sectors.

**Mining and exploring industry.** Mining and exploring industry is one of the priority sectors of the Mongolian economy and this sector accounts for 30 percent of the GDP, 71.9 percent of the total production of the industrial sector, 58 percent of the goods exported in 2006. For the last few years, the mining and exploring industry has extensively been developing and major factors for such fast development are an intensive increase in domestic and foreign investments and the sustainable increase of prices for minerals and raw materials on world markets.

**Increase in prices for raw materials on world markets.** It is obvious that the situation and fluctuations on world commodity markets have significant impact on the economies of the developing nations which are explorers and exporters of such raw materials and minerals. For the few last years, an increase in prices for minerals and raw materials is drawing the attention of many countries and the continued increase in prices for copper and gold positively effected the growth in our economy.

**Gold.** World annual production of gold is about 2400 tons on average (a decrease) and total demand is 3700 tons which resulted in a continued increase in prices. There is a tendency that world prices for gold are expected to increase provided that the economic growth in developing economies continues to expand and prices for raw oil are on the increase. Traditional use and high consumption of gold in India followed by its extensive economic growth, and an increase in consumption of gold in China and countries of Central Asia for the last few years have contributed to the continued increase in demand for gold. According to the statement of the World Gold Council, India accounted for 20 percent of the world consumption of gold and precious metals. Some researchers stated that world price for gold could reach 1000 to 1500 US dollars per ounce in the years to come.



**Copper.** World copper consumption had directly changed depending on the economic growth of countries and regions. In the reporting year, copper consumption went up by 17.2 million tons or an increase of 3.3 percent compared to the previous year and the growth in the economies and production in China, India, Japan, South Korea and European countries significantly contributed to such an increase. Copper is widely used in production of construction materials, electrical goods, electronic equipment, electricity transmission and the automobile industry. The intensive development of technology in Japan, USA and China, the growth in manufacture of automobiles and their spare parts, equipment, tools, production of electric cables, airconditioners, electronic goods, computers etc., mainly boosted copper consumption and led to an increase in its prices on world markets. It is expected that in 2007 Asian countries will consume 44 percent of the world total copper production, South American countries 17.3 percent, European countries 21.4 percent and the other countries only 17.3 percent respectively.

**Agricultural sector.** Last year, favourable climate and weather conditions significantly contributed to the decrease in losses of cattle, increase in harvest gathering of all types of grains and vegetables, and agricultural production increased by 9.7 percent. Nowadays, agricultural sector accounts for about 20 percent of the GDP and 26.1 percent of the total population is occupied in this sector. Mongolia had 34.8 million head of cattle in 2006 which is the highest figure in the country's history. Major factors which affected the growth in this sector, included an increase in the delivery of domestic agricultural products for food consumption, improved opportunities for providing national manufacturers with domestic raw materials, a substantial increase of major export commodities, and an increased allocation of loans for this sector (8 percent of the total loans provided) etc.

**Processing industry.** Besides amounting for 6 percent of the GDP, and 18.6 percent of industrial production, processing industry remains one of the leading industries in the country for creating employment opportunities. In this sector, production of steel and steel materials increased by 35-39 percent which was the highest indicator. Production of foodstuffs, beverages, knitted goods, leather goods, electrical products and hides and skin processing industries showed an increase and production in other subsectors decreased.

An increase in investments in this sector followed by a rise in prices for steel is the key precondition for further development of this sector. Mongolia is the second biggest raw cashmere producing country in the world after China and about 30 percent of raw cashmere is being processed domestically. Besides this, for the last few years, the encouragement of domestic production of import substitution products such as disposable cups and plates, molybdenum acids, polyester materials and road plates have been leading to positive changes and progress in this sector.

For the last few years, export conditions for products of the industrial sector have been becoming more favourable and 34.5 percent of the total products manufactured in the country were sold on international markets in the reporting year. In 2006, 9 percent of total loans or 167 billion togrogs lent by banking institutions were provided to this sector resulting in an increase of 10.1 percent compared to the previous year.

**Construction sector.** Construction sector is considered to be one of the most important and priority sectors following the country's rapid social development. Last year, 84.4 percent of total construction and capital repair works were conducted by domestic organizations and 15.6 percent by foreign companies. A total of 858.2 billion togrogs was invested into this sector and 136 billion togrogs or 7 percent of the total loans provided by the banking institutions were borrowed by this sector. In connection with providing the population with appropriate housing and further development of cities/towns this became the core issue of projects and programmes with the aim of improving better living conditions and supporting the country's development, the construction sector is expected to show a continued rise in the near future.

**Transport and communication sector.** The transport and communication sector showed an 14 percent increase resulting from the growth in foreign trade turnover, number of telephone operators and customers, and in connection with the celebration of the 800th anniversary of the Great Mongolian Statehood. In the reporting year, the total amount of loans provided to this sector amounted to 73 billion togrogs or a 20.7 percent increase compared to the previous year. In 2006, transportation by all modes increased by 1.3 percent, passengers went up by 1.4 percent. Major factors which affected the growth in earnings of the postal and telecommunications sector included an increase in the number of stationed and wireless telephones, number of mobile phone users, number of cable TV users etc.

In 2007, the key priorities of the railway development are the continuation of technical and technological innovations, expansion of transportation capacities, increase of volume of transit goods, bringing international and intercity transportation of cargo and passengers up to international standards, improving service quality etc. Other targeted objectives of the transport sector are continuation of the upgrading of navigational equipment and technological innovations, increasing the number of international flights over Mongolian territory, construction of a new international airport, conducting feasibility studies and environmental surveys etc., which display future growth of this sector.

**Trade and Service Sector.** In the reporting year, total sales accounted for 823.1 billion togrogs and increased by 18.1 percent compared to the previous year. Major factors were the increase in the volume of major import commodities such as import of gasoline by 18.1%, diesel fuel by 28.6% and airplane fuel by 2.8 times. Wholesale trade amounted to 55.2 percent of the total sales of the trade sector, and retail trade accounted for 44.8 percent. In 2006, 37 percent of total loans lent by all commercial banks were provided to this sector or 721 billion togrogs were borrowed by this sector, an increase amounting to 23.05 percent compared to the previous year.

## STATE CONSOLIDATED BUDGET

Last year, the amount of total income of the state consolidated budget and aid were reported to reach 1353.2 billion togrogs and total expenditures amounted to 1228.7 billion togrogs and the total balance accounted for 124.5 billion togrogs in surplus.

Performance of State Budget	2000	2001	2002	2003	2004	2005	2006
<b>Amount of Total Income and Foreign Aid</b>	<b>351.1</b>	<b>439.3</b>	<b>477</b>	<b>553.9</b>	<b>713.1</b>	<b>837.9</b>	<b>1 353.2</b>
Operating income	346.2	430	469.8	545.2	706.3	832.6	1 346.8
Income on Assets	0.1	0.2	0.5	0.0	0.8	1	1.7
Foreign Aid	4.8	9.2	6.8	8.7	6.1	4.3	4.7
<b>Amount of total expenditures and net loans</b>	<b>429.7</b>	<b>489.7</b>	<b>548.6</b>	<b>615.8</b>	<b>752.5</b>	<b>764.6</b>	<b>1 228.7</b>
Operating expenses	314.1	366.7	413.5	434.8	538.7	600.3	978.5
Expenses of Assets	52.6	59.1	68.1	90.5	104.9	89.8	177.5
Net loans to be returned	63	63.9	67.1	90.5	108.4	74.5	72.7

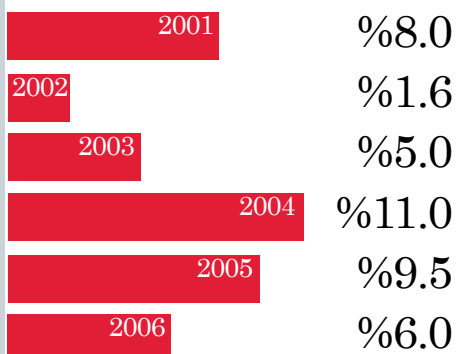
Tax on incomes accounted for 83.2 percent of the state budget income, other incomes amounted only to 16.3 percent. The percentage of tax on incomes in the state budget income increased by 0.6 percentage points and other incomes decreased by 0.5 percentage points compared to the previous year. Expenditures for social insurance and welfare amounted to 20.9 percent of the state consolidated budget expenditures, for education sector accounted for 15.7 percent, for health sector 8.1 percent, for public service 16.6 percent, and for the economic sector 26.8 percent respectively.

In 2005, state budget income amounted to 37 percent of the GDP and in 2006, it accounted for 42.7 percent and showed an increase resulting from the growth in demands in the economy and the creation of opportunities for growth in production capacities due to the increase of Government subsidies to households and capital investments.

## MONETARY MARKET, BANKING AND FINANCIAL SYSTEMS

### Inflation

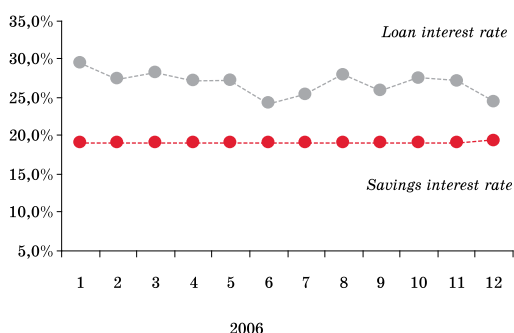
At the end of 2006, inflation calculated on the basis of consumer price index increased by 47.9 percent compared to the base year of 2000 and by 6 percent compared to the previous year. Increase in prices for medicines, medical and transport services mainly contributed to the inflation.



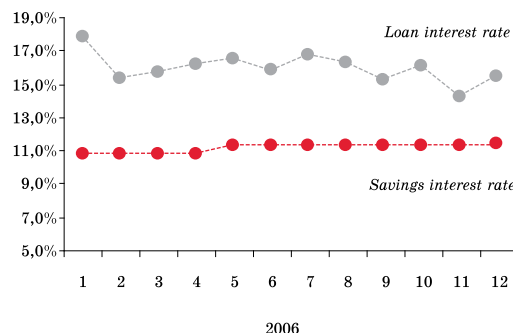
Main Indicators of Banking System	2000	2001	2002	2003	2004	2005	2006
Number of Banks	12	16	16	17	17	17	16
Number of Bank Branches, settlement centres and cashiers	457	538	595	635	684	732	832
Number of People per Bank Branch office	5 268	4 540	4 160	3 943	3 703	3 501	3132
Size of Deposits per person	38	55	88	145	204	270	374
Ratio of Total Assets to GDP	23,1%	29,4%	39,7%	60,6%	59,5%	70,0%	73,0%
Ratio of Total Loans to GDP	6,6%	12,1%	18,7%	32,5%	33,5%	36,8%	38,5%
Ratio of Capital Assets to GDP	3,1%	4,2%	5,0%	8,1%	9,3%	9,1%	9,3%
Percentage of Non-performed Loans	21,9%	6,7%	5,1%	4,8%	6,4%	5,6%	4,9%
Capital Adequacy	27,0%	24,6%	20,0%	20,4%	20,0%	18,2%	18,1%
Government Share in Total Assets	56,6%	48,0%	22,1%	7,3%	6,0%	4,9%	-
Share of Foreign Investments in Total Assets	-	-	21,9%	33,9%	29,4%	29,0%	49,0%
Non-banking Financial Institutions	7	28	66	88	114	150	163

### INTEREST RATE

#### Local currency interest rate



#### Foreign currency interest rate

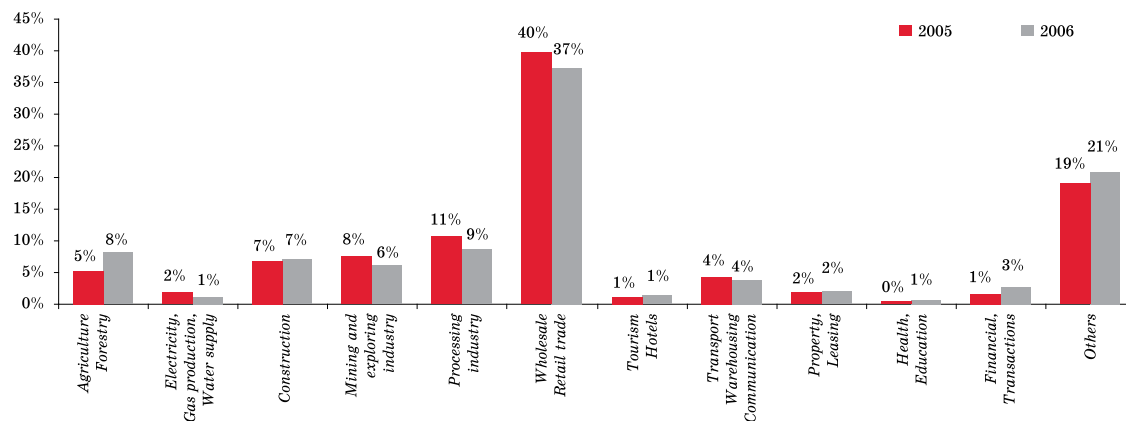


During the course of 2006, deposit rates announced by commercial banks were stable whereas loan rates charged on customers by the banks were volatile and had a overall tendency for a decrease. At the end of 2005, local currency interest margin was 9.1 percent and it reduced to 5.1 percent or by 4 percentage points at the end of the reporting year. However, as far as foreign exchange is concerned, the difference remained unchanged and stayed at 4 percent.

## LOAN-RELATED ACTIVITIES

In 2006, 1.9 trillion togrogs loan was newly issued, and 1.6 trillion togrogs were paid off. At the end of the reporting year, total loans outstanding accounted for 1.2 trillion togrogs and loan lending increased by 39 percent compared to the previous year. There were no significant changes in allocation of loans by economic sectors and majority of loans were provided to the trade sector.

### Loans provided /by purposes/

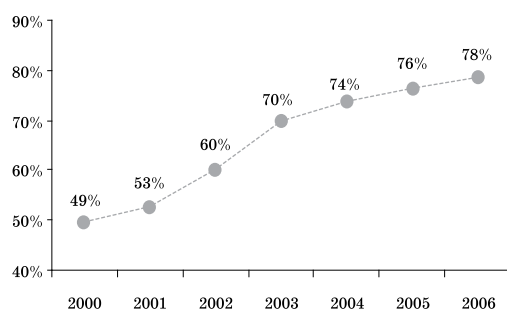


Percentage of non-performing loans in the total loan portfolio decreased by 1 percentage point and reached 5 percent in 2006 which showed a slight improvement in loan quality.

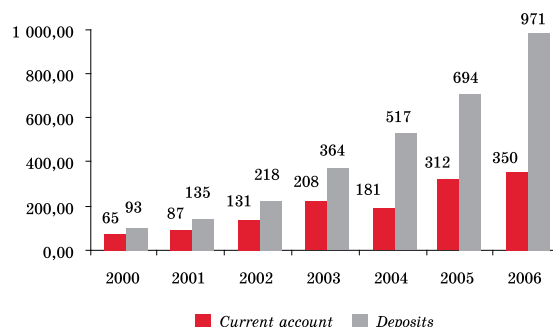
## DEPOSIT TAKING

Percentage of quasi money or retail and corporate togrogs and foreign currency current accounts and foreign currency deposits in total money supply increased by 2 percentage points from the previous year and reached 78 percent or 1.2 trillion togrogs.

### Percentage of quasi money in total money supply



### Deposits from Customers /billion togrogs/



At the end of 2006, customers current accounts balance at the banks was 350 billion togrogs and savings balance - 971 billion togrogs. Private sector represented 57 percent of total current accounts, state organizations 16 percent and individuals 14 percent respectively. Savings of individuals amounted to 94 percent of the total savings. An increase of savings by 276.8 billion togrogs is the highest indicator in the history resulting mainly from the general economic growth in the country.

# Together with Global Development



# Vision Mission, Objectives

## ■ Vision

To be the market leader in Mongolia as reputable and credible bank, employing sound international standards and banking practices.

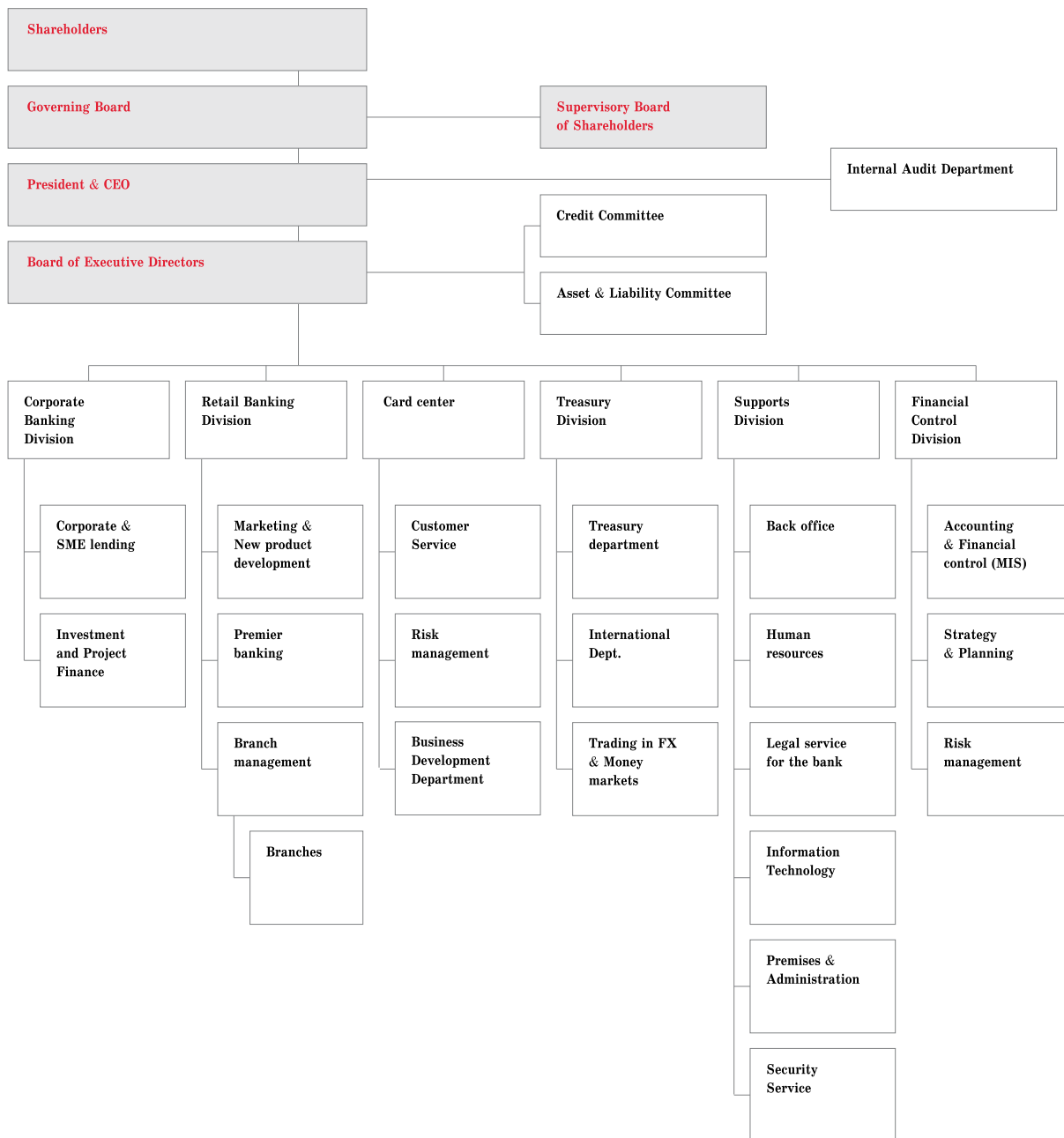
## ■ Mission

To be the leading, learning bank in Mongolia with high efficiency and social responsibility providing a full range of financial services to all its customers.

## ■ Objectives

- to be a valuable and traded public company;
- to be a leading bank in terms of total assets, shareholders equity and profitability in the banking sector;
- to specialize Ulaanbaatar branch offices with targeted objectives and make rural branch offices leading in the locality;
- to provide individuals and small business organizations with a full range of financial services at the branch level;
- to increase the scope of services to customers by making technological improvements.

# Organizational Structure



# Management Team



**NATSAGDORJ. N**  
Vice President &  
Director of Retail  
Banking Division



**OYUN-ERDENE. L**  
Vice President &  
Director of Corporate  
Banking Division



**SUGAR. D**  
Director of  
Back Office



**CHIMEGMUNKH. M**  
Vice President &  
Director of Financial  
Control Division



**TSERENDAVAA. N**  
Director of  
Information Technology  
Department



**CHINGUN. M**  
Director of  
Risk Management  
Department





**GANBOLD. G**  
Vice President &  
Director of Supports  
Division



**ENKHTUVSHIN. S**  
Director of  
Card Center



**GANKHUYAG. G**  
Vice President &  
Director of Treasury  
Division



**GANBAT. J**  
Director of Internal  
Audit Department



**BATNYAGT. B**  
Director of Marketing  
Department

# Golomt Bank in the Reporting Year

## NON-BUSINESS ACTIVITIES

### HUMAN RESOURCE REPORT

At the end of the reporting year, Golomt Bank had 548 employees and more than 200 of them joined the bank in 2006. Number of employees newly joined the bank increased by 1.3 times compared to the previous year and 70 percent of them were assigned to work at branches or service centres and only 30 percent at the headquarters. The average age of the employees is 29 years and the average working experiences is three years. 90 percent of them have higher education, out of which 70 percent have qualifications in banking or business administration, and the rest are other qualifications.

The main value of any organization is its employees and our bank continues to maintain and further promote our traditions to host or organize different innovative measures aimed at human resources development. In 2006, our bank initiated and organized a new activity called “Welcome Ceremony of receiving new employees” for new employees who joined the bank and became members of the Golomt Bank family. Besides it, “Kaysan proposal system” was also successfully initiated by the bank to encourage employees for their creative and innovative works. Within the framework of the opening of a new academic year, which is one of the traditional activities organized by the bank every year, a high level management seminar called “Perfect team” was conducted and several new projects and programmes on improving human resource and training were being implemented

In 2006, totally 720 employees were trained in about 100 training courses and improved their knowledge and skills. This means that quite a number of employees were trained twice during the year. Golomt Bank spent 100 million togrogs for hosting these training courses. Employees of the bank also continued to study in master degree programmes organized jointly by the Institute of Finance and Economics, Mongolia and Handon Global University, South Korea and two employees of the bank successfully graduated from this programme.

Two employees of the bank were awarded the title “Distinguished employee of the banking sector” which acknowledged the fact that employees of the Golomt Bank are leaders in this field.



*We accept only the best of people*

## INFORMATION TECHNOLOGY REPORT

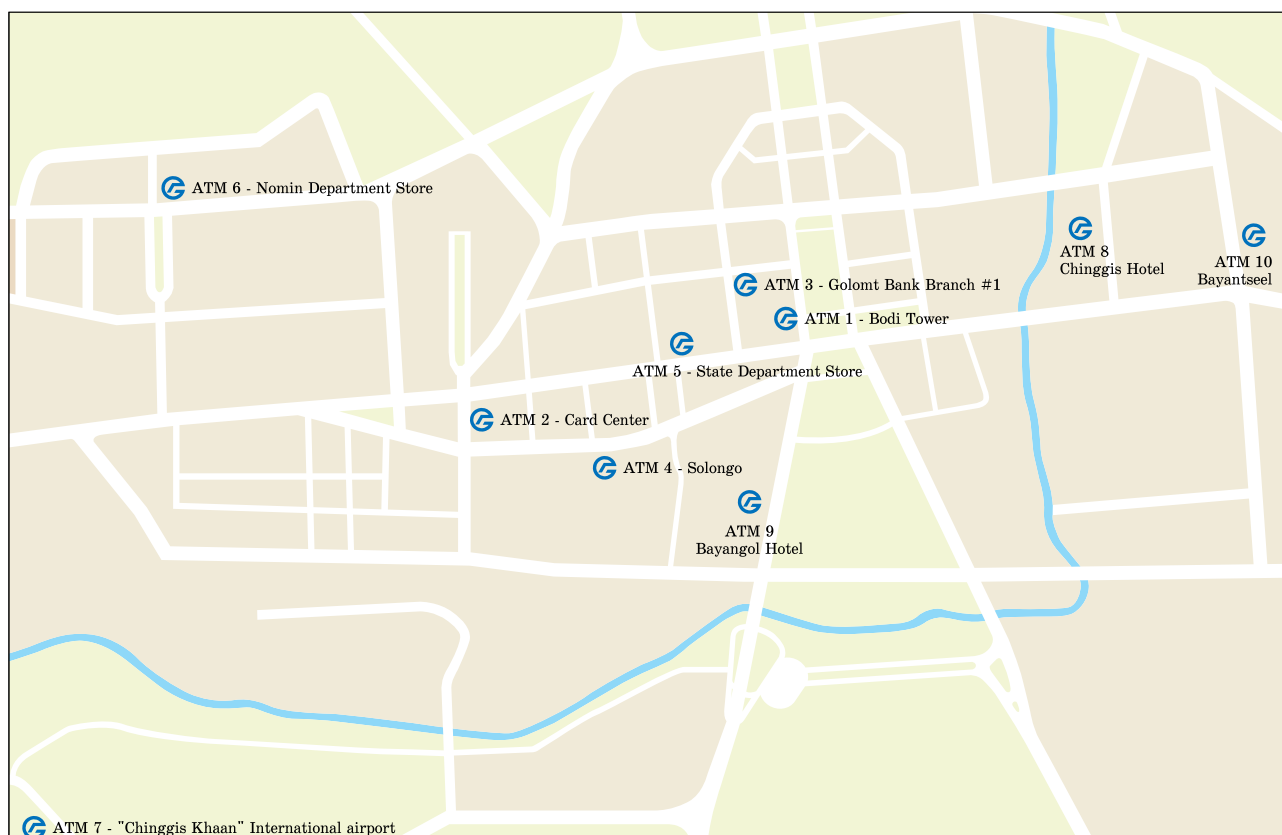
### 1. *An audit on information and technology was conducted.*

The scope of the bank's activities is expanding from day to day and the number and scope of products and services based on information technology are increasing. Last year, our bank requested Thales E-Security Co (part of Thales Group, France) to conduct an audit on the security conditions of the bank's information technology and computer systems and provide recommendations on further improvements. Within the framework of this audit, the bank's computer systems, network, principles of software operations, reliability and security system were audited and relevant recommendations were presented on how to meet the increasing information technology needs and requirements. This was of great help to our future development.

### 2. *Automated teller machines (ATM) were introduced into services.*

With the increased number of card users, our bank undertook several measures on extending the possibilities for speedy and convenient services and increasing the number of ATMs. Last year, in order to meet these requirements our bank successfully installed and introduced ATMs manufactured by Wincor Nixdorf, Germany in cooperation with Sungard System Access, Malaysia. Specifics of these ATMs are that they equally use both MasterCard Card and Visa Card and for the first time we opened these opportunities in Mongolia by receiving Cirrus Certificate of MasterCard International and Plus Certificate of Visa International. Nowadays, these ATMs provide such services as cash withdrawal, balance check, copies, transfer by card, change of PIN codes etc.

### *Locations of Golomt Bank ATMs.*



## **SOCIETY ORIENTED MEASURES**

Golomt Bank has been increasing its involvement in the society-oriented activities from year to year and in 2006 it organized or hosted a number of activities aimed at the society and public. The bank also participated in several similar events. For instance, buses of the city public transportation companies “Autobus 1” and “Autobus 2” organized the free transportation of passengers on the occasion of the 367th anniversary of the Capital City Ulaanbaatar on 26th October, 2006, this initiative hosted by the Golomt Bank involved approximately 12,000 inhabitants of Ulaanbaatar city.

This year our bank continued also a good-will campaign to improve children’s learning and living environment and assist children living in poor and unsafe conditions. Within the framework of this campaign, our bank invited children who took part in a project called “Children living in harsh conditions” funded by the World Vision, an international organization, and introduced them to the bank’s activities whilst having lunch together and giving presents to them on the occasion of the international children’s day. Besides this, the bank provided 5 million togrogs grant to “Achlal” school of the Center for Children’s Development, Songinokhairkahn duureg in cooperation with “Future Key” fund and Itochu Corporation. The bank also opened savings books for several children as well as savings accounts for two children living in harsh conditions.

One of the traditional public-oriented activities of the bank is an offering scholarship program which started in 2003. In the reporting year, this program covered 100 students from 54 universities and institutions who successfully studied. They received a total of 36 million togrogs as scholarships. Last year, the bank successfully organized and hosted its traditional student research conference and 68 research outcomes and articles of 107 participants from 16 universities and institutions were presented on this conference.

Besides these traditional activities, our bank actively participated in activities aimed at assisting Mongolian sportsmen, who took part in international competitions and contests to contribute to the development of Mongolian sports as well as combating environmental pollution.

## BUSINESS ACTIVITIES

### BRANCH OFFICES AND SETTLEMENT CENTERS

Last year, Golomt bank made several significant changes in its branch offices and settlement centers. Status of the following settlement centers, which play an important role in sales, were transformed into the status of branch offices and expanded the scope of their own operational activities:

- 1st and 5th branch offices in the 1st khoroo of Chingeltei duureg;
- 2nd branch office in the 7th khoroo of Bayanzurkh duureg;
- 6th branch office in the 1st khoroo of Sukhbaatar duureg;
- 7th branch office in the 12th khoroo of Songinokhairkhan duureg;
- 8th branch office in the 14th khoroo of Bayangol duureg.

In the reporting year, for the purposes of expanding its network, our bank also established three new branch offices in Ulaanbaatar and 2 new settlement centers in rural areas in accordance with customer needs and requirements.

Besides these branch offices and settlement centers, at the request of customers, several new settlement centers were opened up in areas where cash is being concentrated or deposited.

- 12th branch office in the 2nd khoroo of Chingeltei duureg;
- 16th branch office in the 5th khoroo of Sukhbaatar duureg;
- 17th branch office in the 14th khoroo of Songinokharkhan duureg;
- 11th cashier office of 1st branch office in in Mobicom building in 3rd khoroolol;
- 15th branch office of Darkhan Uul aimag in Dulaankhaan khoroo of Selenge aimag;
- 16th cashier office of Orkhon Uul aimag branch office in Mobicom building;
- 12 and 14th cashier offices in the province center of Orkhon Uul aimag.





*Friendly service in comfortable environment*

In order to deliver modern banking services to customers of rural areas, the bank opened its 13th settlement center at Zamyn Uud, Dornogobi aimag and its 18th branch office at Moron, Khubsgul aimag.

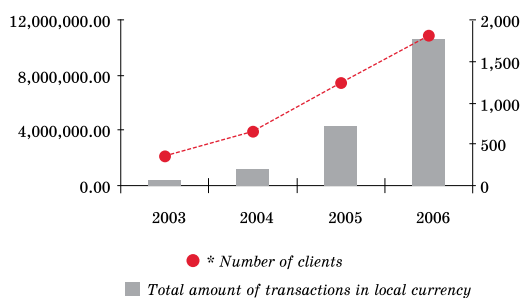
Besides making branch offices and settlement centers accessible to customers through increasing their numbers, last year, our bank implemented several measures to create a comfortable servicing environment for customers and improve customer satisfaction. Within the framework of improving service quality, the servicing area of the Card Service Center, Private Banking Unit was re-furnished and modernized and now they have operating conditions consistent with modern needs and requirements. Also the 5th branch office located in the center of Ulaanbaatar, was fully converted into teller system of operation thus creating single point services for customers. All branch offices and settlement centers have so called “box for customer complaints” for settling and obtaining quick feedback of requests from clients.

## E-BANKING

In the reporting year, Golomt bank paid special attention to e-services by making them more accessible to customers and expanding their scope. Last year, all newly established units and some units which had no on-line connection were transferred to on-line regime and now all units except two operating in Khubsgul and Dornod aimags have on-line access services for customers.

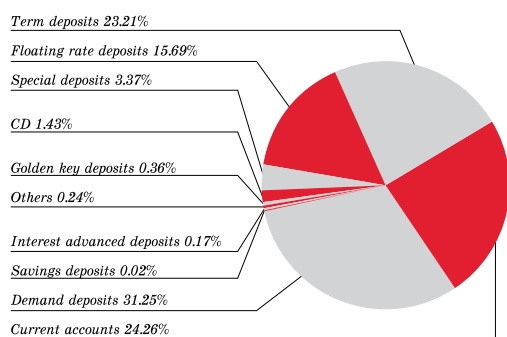
Since September 2006, for the purposes of customs clearance, our bank introduced internet-based payment service in cooperation with the Customs General Administration of Mongolia which made a real contribution by offering expedited services and creating favourable conditions for foreign trade facilitation.

### Indicators of Internet Banking



The figures show that customers understand the advantages of internet services and the number of users are increasing. Number of customers of internet banking increased by 46.4 percent and the amount of transactions - by 143 percent compared to the previous year respectively.

Last year, security level of e-banking was significantly improved and the number of customers of e-banking increased by 2.6 percent.



## CURRENT ACCOUNT AND SAVINGS SERVICES

In the reporting year, the total amount of current accounts and savings of the Golomt Bank increased by 22 percent and reached 283.7 billion togrogs compared to the previous year which amounted to 19 percent of the total current accounts and savings of all the country's commercial banks. Costs of interest for current accounts and savings reached 17.4 billion togrogs or a 39 percent increase compared to the previous year.

In order to offer flexibility of options to our customers our bank created opportunities to place ordinary savings with any term between 1 to 12 months.

Our bank also offered a number of new products to our customers such as savings with advanced interest that allow withdrawal before the deadline, savings deposits and ordinary savings certificate with comparatively high interests etc.



## CARD SERVICES

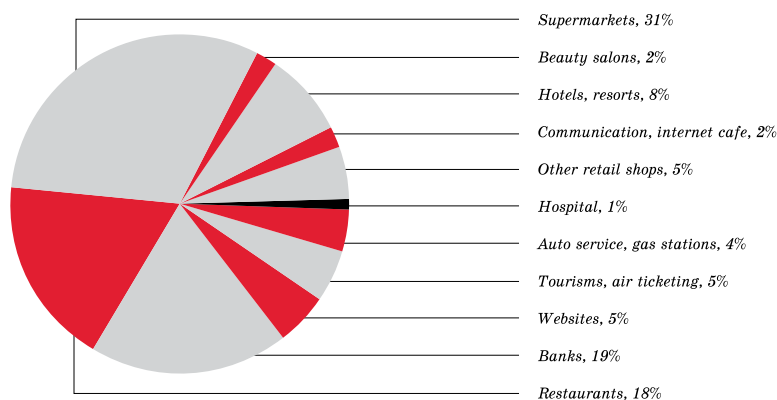
Golomt Bank introduced payment cards of MasterCard and Visa card in Mongolia which are famous brand names throughout the world. For the purposes of maintaining the leadership position in introducing new technology in the banking sector and increasing the use of payment cards and other non-cash payment means, Golomt Bank successfully introduced and implemented such projects as “Visa Platinum”, “Visa electron” and a Maestro card for Mongolian Students discount card (in cooperation with the Mongolian Student Union), Golden Turuu (a Chinese Renminbi card in cooperation with Agricultural Bank of China) and today demand for these products and their share on the market are increasing. Besides this, our bank is expanding its market share and scope of use of payment cards in accordance with arrangements with Zoos Bank, Kapitron Bank and Khas Bank.

Last year, our bank introduced new products such as MIAT Mileage co-branded card (in cooperation with MIAT shareholding company); Airnetwork Mileage Golden Card (in cooperation with Airnetwork Co., Ltd.) and a card service for the world football championship (in cooperation with MasterCard Worldwide, General Sponsor of the World Football Championship) etc., and installed new ATMs. Within the framework of social welfare activities, our bank introduced a Torino-2006 Visa card in support of Mongolian sportsmen’s participation in the Winter Olympics held in Torino, Italy.

We created more opportunities for making payments through the internet. Now customers log on and travel through many websites such as [www.ntc.mn](http://www.ntc.mn), [www.on-air.mn](http://www.on-air.mn), [www.cip.mn](http://www.cip.mn) etc. and buy Mobicard prepaid cards, on-line movies, watch clips, office stationary etc. There is now an opportunity to see payment card balance, making utility payments for houses, electricity etc., through the Golomt Bank website: [www.egolomt.mn](http://www.egolomt.mn).

At the end of 2006, total number of payment card holders reached 208,900 and during this period 66,200 new payment cards were sold. Total amount of payments made through payment cards increased by 60 percent and reached 68 billion togrogs compared to the previous year and number of organizations which prefer payment cards for payment of wages and salaries to their employees went up by 49 percent and reached 368. This meant that information and needs for payment cards were increasing.

*List of Organizations accepting Golomt Bank cards*



For the purposes of accelerating the card services in a fast and convenient manner for customers, offering, selling and delivering all products and services from one place, our bank deployed different products and services at all branch offices and settlement centers thus enhancing the accessibility of payment card services. Golomt Bank made loans with low interest rates and discounts to encourage customers and intensify the use of payment cards and loans increased by 70 per cent and reached 2.6 billion togrogs compared to the previous year. At the end of the reporting period, more than 10 per cent of the card holders are users of internationally accepted payment cards and the number of cards used outside the country increased by 30 per cent, cases of their uses went up by 56 per cent respectively and reached 756 million togrogs. At the end of the year, the balance of current accounts of payment cards reached 7.8 billion togrogs.

For the last few years, Golomt Bank has mainly given more consideration to accelerating customer payments, settlements and the automation of operations and now we are able to offer products and services to our customers through 102 branch offices or settlement centers, 427 trade and service organizations which accept cards, 27 websites and 10 ATMs.

#### **LOAN SERVICES**

In the reporting year, Golomt Bank issued loans worth 298.7 billion togrogs and 250 billion togrogs were repaid. The bank's interests' income amounted to 21.8 billion togrogs and loans outstanding stayed at 186 billion togrogs at the end of the year. Lending increased by 53.1 per cent and profits on interest rates by 28.2 per cent, loans balance went up by 34.5 per cent compared to the previous year. Golomt Bank's loan balance accounted for 15.2 per cent of the total loans balance of all commercial banks in the country.

Last year, Golomt Bank provided more than 27 types of loan products and services from its own resources and took active participation in step loan projects financed by WB, ADB and other donors. The bank also paid more attention to introducing low cost loan products into the market,, for instance, the bank continued to participate as an intermediary in ADB funded projects such as "Increasing employment opportunities", "Housing financing" and "Supporting Employment opportunities" of the Institute of Labour and Economics. Golomt Bank was selected as financial intermediary for two step loan project "Supporting small and medum enterprises" to be jointly implemented by the Government of Mongolia and the Japan Bank of International Cooperation and has now even more opportunity to supply long term and low cost loans to the market.

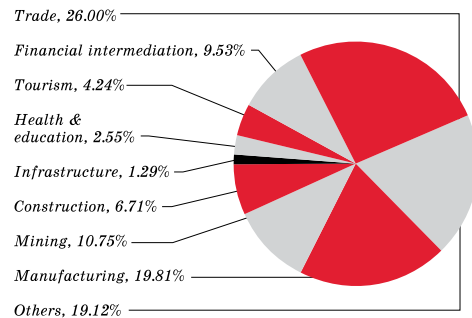
In 2006, in connection with the Government policy to actively support small and medum scale industry and provide citizens with housing, we on our side also paid special consideration to these issues and increased the percentage of loans provided to small businesses, investments and mortgage loans. The ratio of these loans to the whole loans portfolio increased from the previous year.

<b>Type of Products</b>	<b>percentage in total portfolio</b>
Corporate working capital loans	78.06%
Small business loans	9.14%
Loans provided to banks and financial institutions	0.32%
Mortgage loans	4.19%
Private Sector Development Credit Project loans	0.43%
Investment loans	3.82%
Others	4.03%
<b>Total</b>	<b>100%</b>



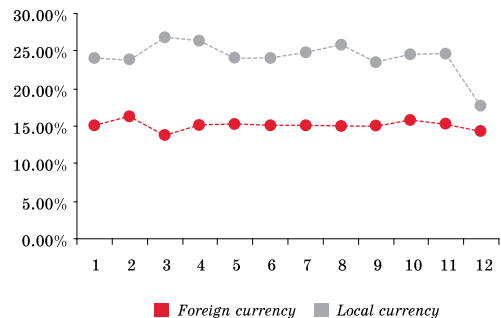
*We are like ONE FAMILY*

### Classification of loans by purposes



### Loans annual weighted average

/Jan.2006-Dec.2006/



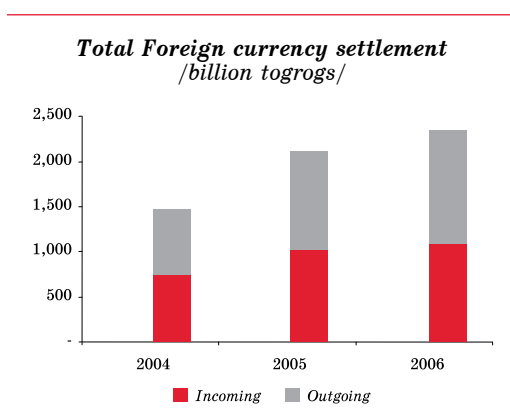
Last year, our bank pursued objectives to decrease loan interest rates and increase single borrower exposure limit and as a result, the number of borrowers went up and the average loan interest rate decreased. At the end of the year, total amount of loans provided by branch offices increased and reached 80.5 billion togrogs as a result of improving loan lending through branch offices in connection with the intensification of business activities and increased demand for loans in the country. During this period, the following major changes were achieved in loans related activities:

- created more than 1356 working places and provided financial supports to 352 families to improve their living conditions.
- undertook measures to decrease loans interest rates step by step and decreased the maximum and minimum levels of interest rates to 1.9 and 2.5 percent respectively.
- increased amount of small business loans and maximum loan limit per borrower which reached 100 million togrogs.
- loans interest for Employment generation project reduced to 1.8 percent and decreased by 1 percentage point.
- amount of consumer loans for customers with sustainable incomes reached 5 million togrogs and interest rates decreased to 3.0 percent.
- maximum amount of import loans in support of importers increased and reached 500 million togrogs.
- maximum amount of loans against pension income reached 400 thousand togrogs in connection with the increase of pensions.
- increased loans issued by branches and improved loans processing.
- salary card loans started to be issued via branches
- Small business loans via branches were broadly supported and loans in RMB started to be issued as well via branches.
- import finance loans emerged to support traders in order to support their temporary needs in finance.
- Opening up of the Small Business Center in Enkhtaivany orgon choloo, in the center of Ulaanbaatar was the right decision in terms of location and this center has already lent loans worth 8 billion togrogs since its opening.

## INTERNATIONAL RELATIONS AND COOPERATION

In 2006, within the framework of objectives to meet the increasing financial needs of customers, Golomt Bank established correspondence contacts with major international banking and financial institutions such as American Express Bank, USA; Industrial and Commercial Bank, China; Sumitomo Mitsui Banking Corporation, and Mizuho Corporate Bank, Japan, and Kazkommertsbank, Kazakhstan etc. For the purposes of decreasing charges for foreign currency remittance, placing bank's assets in right places and extending efficient external relations on foreign markets, the bank continued to expand and improve the contacts already established. As a result, international banks such as Commerz Bank, New York; Export-Import Bank of the Republic of China, Czech Export Bank, A.S; Agricultural Bank of China, Kazkommertsbank etc., opened up credit lines for trade finance activities which created opportunities for our customers to borrow cheap resources from abroad.

In the reporting year, Golomt Bank opened up more than 120 letters of credits in 26 countries through its correspondent banks resulting in a 20 percent increase compared to the previous year. Profits derived from foreign remittance, letters of credits and bank's guarantees increased by 25 percent compared to the previous year.



Our bank receives and delivers customers money through Western Union which is the world biggest international money transfer service network with more than 140,000 centers in 186 countries. In 2006, money transfer services were provided to 35000 customers and total amount of money transmitted increased by about 20 percent and earnings derived accounted for 410 million togrogs.

## INDICATORS OF FINANCIAL PERFORMANCE

### PERFORMANCE OF BUDGET PLAN AND FINANCIAL OBJECTIVES

At the end of 2006, bank's total assets were estimated to reach 333.3 billion togrogs but performance showed an increase of 19.6 percent or a 6 percent increase over targeted indicators and reached 352.9 billion togrogs.

Bank deposits accumulated which are main factors for managing the performance of assets were expected to reach 276.2 billion togrogs and the real performance represented 278.6 billion togrogs and increased by 2.3 billion togrogs or a 1 percent rise.

Last year, with the successful implementation of the plan on resources of assets, financial objectives described in the policy framework of assets resources were achieved and plan on growth of assets and resources were fulfilled on the whole.

Besides assessing performances of the plan on resources accumulated and efficiency indicators calculated on the basis of monthly internal evaluation system, the introduction of "Scoring system" for the assessment of all branch offices and settlement centers contributed to the fulfillment of their plan last year.

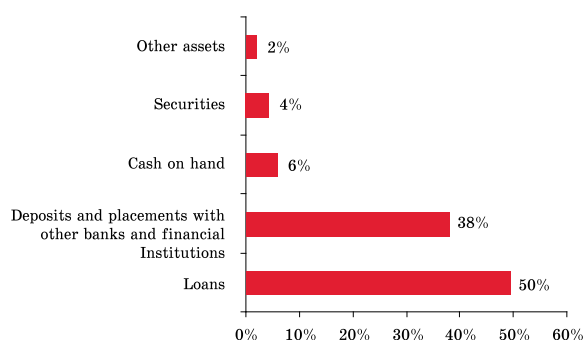
#### Key Financial Indicators / by comparing last 5 years /

Indicators	2002	2003	2004	2005	2006
<b>ASSETS STRUCTURE</b>					
1 Ratio of Savings to Total Assets	82.1%	81.7%	80.2%	85.2%	80.5%
2 Ratio of Equity to Total Assets	5.1%	6.2%	5.5%	4.9%	6.2%
3 Ratio of Net Loans to Total Assets	40.8%	41.0%	49.6%	48.2%	49.6%
<b>OPERATIONAL RATIOS</b>					
4 Ratio of Loans to Savings	201.2%	199.2%	161.8%	176.6%	162.4%
5 Ratio of Non-performed Loans	16.8%	9.9%	8.4%	8.6%	6.7%
6 Average Operational Profit per Employee (thousand. togrogs)	41 285	45 780	53 795	59 934	57 788
7 Income per Employee (thousand.togrogs)	3 850	4 020	5 277	5 807	4 598
<b>PROFITABILITY</b>					
8 Return on Assets	1.0%	1.0%	1.0%	0.9%	0.7%
9 Return on Own Equity	14.4%	11.1%	12.0%	11.7%	8.1%
10 Net Interest margin	4.83%	6.81%	5.43%	3.78%	4.02%
11 Ratio of Expenditures to Incomes	46.3%	53.4%	44.9%	45.6%	53.7%
12 Ratio of Net Incomes	9.3%	8.8%	9.8%	9.7%	8.0%
<b>RISK INDICATORS</b>					
13 Tier I capital to Risk Weighted Assets	14.2%	15.4%	13.1%	12.3%	14.6%
14 Capital adequacy ratio >= 10%	14.2%	15.4%	13.1%	12.3%	16.7%
15 Foreign currency exposure <+-40%	12.8%	27.5%	20.6%	32.4%	39.7%
16 Single borrower exposure <20%	17.6%	11.9%	18.6%	18.3%	18.3%
17 Related party loans <5%	2.7%	1.2%	0.8%	0.1%	2.0%
18 Liquidity ratio >=18%	58.5%	57.8%	50.5%	51.7%	51.7%
19 Fixed Assets <=8%	2.8%	2.1%	1.4%	1.2%	1.1%

## CHANGES IN AND MOVEMENT OF ASSETS

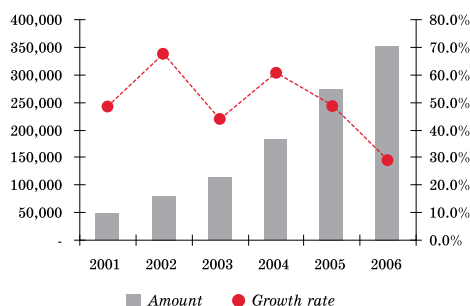
In 2006, total assets of Golomt Bank increased by 79.2 billion togrogs or 29 percent increase compared to the previous year and reached 352.5 billion togrogs. The bank deployed 50 percent of its total assets in the form of loans, 38 percent - in the form of current accounts and deposits with/of other banks and financial institutions, 4 percent - in the form of securities, 6 percent in cash, 1 percent in other assets, and 1 percent in other form of fixed assets.

In 2006, net loans increased by 42.9 billion togrogs or 32.5 percent compared to the previous year and reached 174.7 billion togrogs. Our bank achieved its goal to maintain percentage of total loans in total assets less than 50 percent.

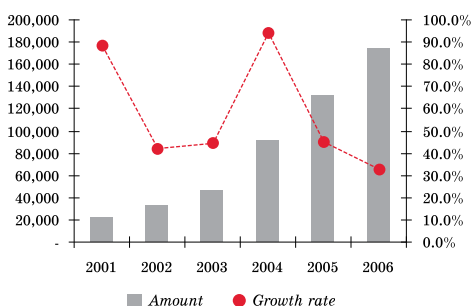


Foreign assets increased by 23.7 billion togrogs and reached 99.2 billion togrogs which accounted for 28 percent of total assets. Our bank actively participated in Bank of Mongolia treasury bill trading and other securities and purchased securities totally worth 317.3 billion togrogs. In 2006 securities investment balance reached 15 billion togrogs at the end of the year.

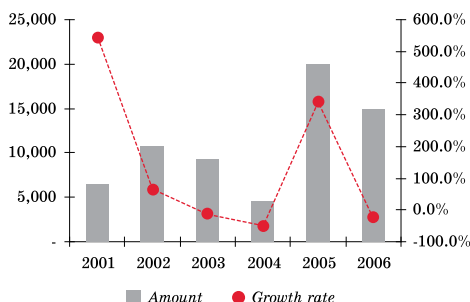
### Total Assets



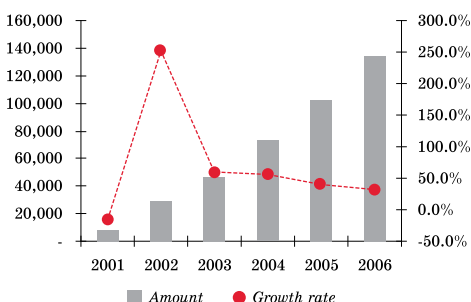
### Net Loans



### Investments in securities



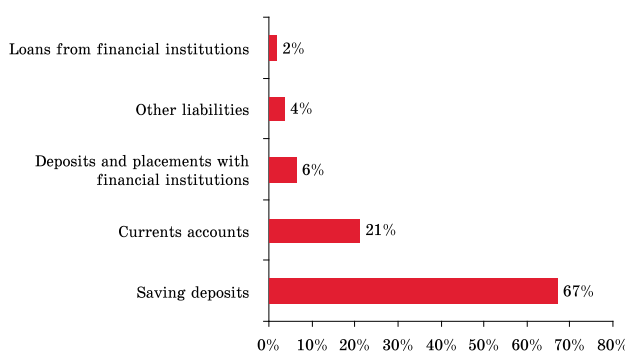
### Deposits and placements with other financial institutions



### CHANGES IN AND MOVEMENT OF LIABILITIES

At the end of 2006, total liabilities of the bank increased by 68.2 billion togrogs or a 27 percent increase and reached 321.2 billion togrogs. As of end of the year, savings accounted for 66 percent of the total resources, current accounts amounted to 21 percent, resources derived from other banks 7 percent, resources derived from other financial institutions 3 percent, and other sources 2 percent respectively.

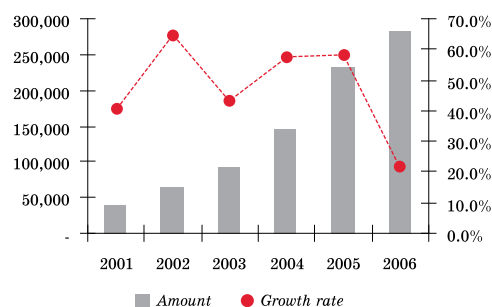
During the financial year, our bank continued to increase types and choices of its savings' products in terms of timing to meet customers requirements. Resources of savings increased by 41.5 billion togrogs and accounted for 61 percent of the growth of total resources.



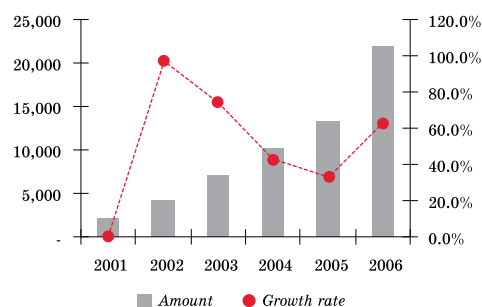
Bank's resources derived from other banks increased by 12.8 billion togrogs and resources derived from financial institutions by 3.3 billion togrogs.

In order to improve and enforce its ability to estimate risks in connection with the growth in savings resources, Golomt Bank increased its charter fund by 8.5 billion togrogs last year and earned net profits of 2.5 billion togrogs. Its own equity increased by 31 billion togrogs or a 54.4 percent increase compared to the previous year.

**Current account and deposits**



**Statutory fund**

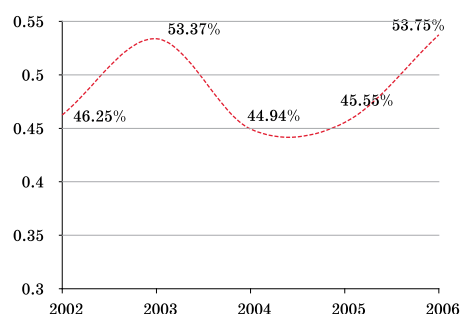




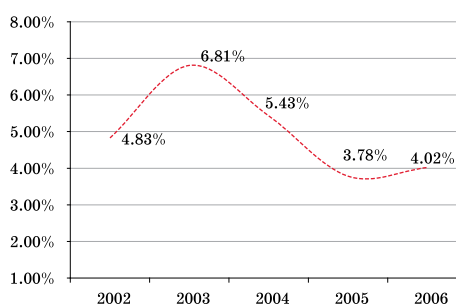
## PROFITABILITY/EFFICIENCY

Last year, indicator of use of the bank's assets stayed almost unchanged and at the end of the year 76.5 percent of total assets were placed in a form where the bank earned income.

### Cost Income Ratio



### Net Interest Margin



Though return on equity stayed at 8.05 percent, return on assets at 0.71 percent showed a slight decrease compared to the previous year but was enough in comparison with the growth of operational scope of the bank.

In the same year, margins of interest rates increased by 4.02 percent compared to the previous year and earnings per employee amounted to 4.6 million togrogs.

## RISK MANAGEMENT

Rapid changes in socio-economic conditions in Mongolia in particular, the current level of development of the banking and financial system require improvements and enforcement of the risk management system of commercial banks and bring it up to the appropriate level of development. In order to meet the market requirements, Golomt Bank paid more attention to the risk management activities taking into consideration the importance of establishing an efficient risk management system, which will raise it to international standards and market requirements.

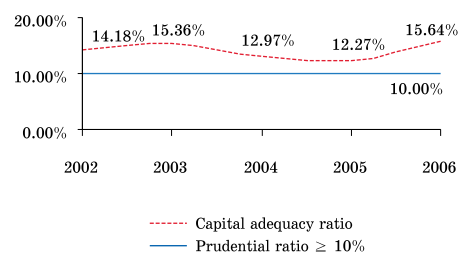
The major objectives of the Golomt Bank risk management activities are as follows:

- to maintain appropriate ratio of risks and efficiency at all levels of operations;
- to decrease losses to the minimum level possible;
- keep the difference between the business plan and performance at lowest level possible.

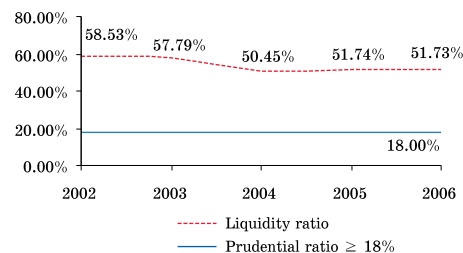
The Board of Directors of the Golomt Bank identified risks which could have an affect on the bank's operational activities and developed "Risk Management Policies" containing standards to be followed in terms of risks related to loans, market, liquidity and operational activities. Within this framework of policies, the Loans Committee (loans risks), the Assets and Liabilities Committee (risks related to market and liquids) and Board of Directors (risks related to operational activities) are responsible for the implementation of risk management system.

Golomt Bank continued to use Basel Committee methodologies and criteria and the best practices of international banks and financial institutions in its risk management activities making them basic principles to be followed. Our bank also undertook measures to meet the requirements set out by the Bank of Mongolia and last year's performance showed that the bank established efficient risk management and audit system to ensure the bank's sustainable operations.

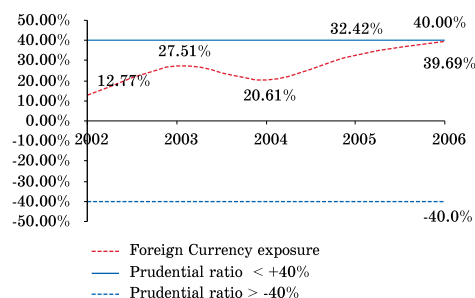
#### Capital adequacy ratio



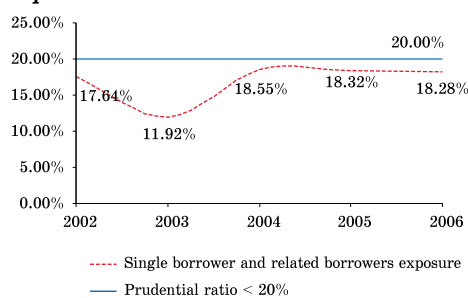
#### Liquidity ratio



#### Foreign Currency exposure



#### Single borrower and related borrowers exposure



The Risk Management Division of the Financial Information and Audit Department administers risk management within the framework of agreed policies and regulations and undertakes measures to further improve and enforce them in line with conditions as appropriate in cooperation with Loans Department, Sector Units and the Administration Division of Services and Customer Department.

#### LOAN RELATED RISK

In order to decrease loans related risks our bank identified and developed internal criteria for possible loans related risks to be followed within the bank and consistent with the requirements set out by Bank of Mongolia. Borrowers were classified into several categories in accordance with the possibility that they could delay payment of loans or interest. They follow agreed principles to determine the percentage and size of each category in the total loans portfolio. Indicators for entrepreneurs such as type of ownership, loans history, business and financial capacities, business perspectives etc., are being used in the loan surveys. They also use comprehensive and detailed indicators for organizations with government and political involvement, citizens, and other banks.

The bank's Risk Management Division undertakes regular reviews of loan portfolios using such key indicators as loan products, economic sectors and concentration/density of customers etc., and identifies possible risks in advance which could affect the profits of the bank and then takes protection measures. This division also is conducting constant surveys on major factors such as domestic products, changes in service market, basic salary and wages, household incomes, needs of basic economic sectors, budget incomes and expenditures, and stress testing etc., which have a strong impact on the business environment and follows the general directions for implementation of risk management in order to meet market requirements.

On the other side, our bank pay more attention to determine and take protective measures against possible risks which could arise from such negative factors like decrease or sharp increase in loan interest due to severe competition between commercial banks etc.

### **MARKET RISKS**

Market risk management includes risks related to interest rates, securities and foreign currencies. The bank's Assets and Liabilities Committee determined standards and limitations for market risks in accordance with the requirements set out by the Bank of Mongolia and all activities related to setting interest rates and foreign exchange operations are being conducted within these limitations and standards.

An unjustified market price system is emerged due to severe price competition on the banking and financial markets notwithstanding the fact that the value of banks' resources were constant and loan interest rates decreased. This could negatively affect the margins of banks' net interest and profitability. In order to avoid such negatives phenomenon already existing in the banking system, our bank adhered to key principles to make structural changes in assets and liabilities for example by increasing the percentage of loans with floating interest rates. In particular, increasing loans with floating interest rates and long term loans in the loan portfolios will be of great importance for reducing possible risks which could result from changes in the level of interest rates. Our bank uses a methodology called "Gap and duration" which is based on predictions of future cash flow by dividing the difference between assets payable and resources into different phases by different time periods.

As far as liquidity management is concerned, our bank continually ensures that the Bank of Mongolia requirements to have fixed resources and scenario analysis and simulation are being conducted using different methods. We also continued to work by determining principles and floating capacity indicators to be followed during critical market situations like the bankruptcy of savings and loans cooperatives etc.

In order to administer foreign currency risks, the Assets and Liabilities Committee determines stop-loss limits and sizes of open positions to be followed during foreign currency and gold trading on international markets and undertakes regular inspections within these limits. Our bank assesses possible risks of foreign exchange fluctuations using VaR methodology accepted by the international banking and financial system as the best method to measure risks. As a result, risks are being assessed every day with 99 percent possibility on the basis of exchange rates of the last 250 trading days and thus open positions of foreign currencies are controlled. For the purposes of acknowledging the accuracy of the VaR methodology and estimating possible risks that could arise from rapid market changes, our bank conducts Back Testing and Stress Testing every quarter and continues to improve these methods used.

## **OPERATIONAL RISKS**

Operational risks usually arise as a result of internal processes, people, unsafe system, errors and external factors. Therefore, in order to protect ourselves against operational risks, our bank is giving high consideration to improving internal structure and systems, ensuring smooth allocation of decision-making process, enforcing operational rules and regulations, securing reliability of bank's computerized systems and ensuring high level of security measures etc.

Golomt Bank gives high priority to security issues of information technology and introduces all new software and hardware systems only after providing tests during a particular period in terms of their operational reliability and normal functioning as well as security and confidentiality. Confidentiality and security of all software, hardware and equipment used are regularly being tested and certified.

Law Division of the bank's General Coordination Department undertakes measures on ensuring legal effectiveness and standardization of agreements, transactions and legal documents being used at all levels of operations and improve knowledge of the employees in legal issues.

The bank also undertakes measures to eliminate risks identified during internal audit reviews, improve relevant rules and regulations and ensure their implementation to create opportunities to avoid risks again.

# List of Products and Services

## CUSTOMER'S ACCOUNT

- ◆ Retail /Private
- ◆ Corporate
- ◆ Escrow
- ◆ Special

## SAVINGS ACCOUNT

- ◆ Demand deposit
- ◆ Term deposit
- ◆ Simple Term Deposit
  - 1 month term deposit
  - 2 month term deposit
  - 3 month term deposit
  - 6 month term deposit
  - 12 month term deposit
- ◆ Interest Advanced Savings Account
  - 3 month term
  - 6 month term
  - 12 month term
- ◆ Savings deposits
  - 12 month term
- ◆ Certificate of Deposit
  - Simple
  - Coupon
  - Free Floating
- ◆ Fluctuating Interest Savings
- ◆ Golden Key /children/

## CARD SERVICES

- ◆ Master Card
  - Golden card /domestic, international/
  - Corporate / domestic, international/
  - Simple card / domestic, international /
  - Maestro card / students /
  - Co-branded card
- ◆ Visa Card
  - Golden Card / local, foreign /
  - Business Card /local , foreign /
  - Classic Card /local, foreign /
  - Visa Card /student discount /
  - Co-branded card
- ◆ Altanturuu Yuan Card

## PAYMENT SERVICES

- ◆ Western Union international money transfer
- ◆ Local Private remittance
- ◆ Foreign Remittance

## INTERNET BANKING

## E-BANKING

## TELEPHONE BANK

## SMS BANK

## BILLING

## LOANS

- ◆ Working capital loan
  - Corporate
  - Retail/Private
  - Gold Mining
  - Non Banking Financial Institution, Credit and Savings Union
  - Credit Card Merchant Organization
  - Express loan
- ◆ Investment Loans
- ◆ Charcoal loans
- ◆ Small Business Loan
- ◆ Refinancing Loan
- ◆ Import Loan
- ◆ Consumer Loan
  - Hire purchase loan
  - Household
  - Salary
  - Card Installment
  - Savings backed loan
  - Car purchase
  - Pension
  - House repairing
- ◆ Mortgage loans
  - Asian Development Bank
  - From own resources/funds
- ◆ Project loans
  - Private sector development
  - Employment generation
  - In support of employment
  - Green
  - Small and medum scale business development
- ◆ Inter-bank Loans
- ◆ Syndicated Loans

## LETTER OF CREDIT

- ◆ Exporting
- ◆ Importing

## GUARANTEES

- ◆ Tender/Advance Payment/Performance Guarantees
- ◆ Payment Guarantee

## FOREIGN EXCHANGE TRADING

## SAFE BOX

## CHEQUE EXCHANGE AND TRADE

- ◆ Name cheques
- ◆ Travel cheques

## OTHER SERVICES

- ◆ Banknotes
- ◆ Certificate on a/c balance
- ◆ Other certificates

# Locations of Golomt Banks Headquarters and Branches

## **GOLOMT BANK HEADQUARTERS**

Bodi tower. Sukhbaatar gudamj.  
Ulaanbaatar 210620A  
Telephone: (976-11) 311971, 311530  
Fax: (976-11) 312307, 311958  
Email: mail@golomtbank.com  
Web: <http://www.golomtbank.com>

## **Branch office #1**

Khudaldaanii gudamj 6/2.  
Chingiltei duureg. Ulaanbaatar  
Telephone: (976-11) 310759, 313155  
Fax: (976-11) 326231

## **Branch office #2**

15th khoroolol.  
Bayanzurkh duureg., Ulaanbaatar  
Bayantseel khudaldaanii tuv  
Telephone: (976-11) 456980  
Fax: (976-11) 456829

## **Branch office #5**

Baga Toiruugiin gudamj.  
Chingiltei duureg. Ulaanbaatar  
Telephone: (976-11) 320712  
Fax: (976-11) 330436

## **Branch office #6**

Natsagdorjiin gudamj.  
Sukhbaatar duureg. Ulaanbaatar  
Telephone: (976-11) 320814  
Fax: (976-11) 318479

## **Branch office #7**

1-r horoolol.  
Songinokhairkhan duureg. Ulaanbaatar  
Telephone: (976-11) 681267  
Fax: (976-11) 630347

## **Branch office #8**

Moscow complex. 3-r Khoroolol,  
Bayangol duureg., Ulaanbaatar  
Telephone: (976-11) 305419  
Fax: (976-11) 368602

## **Branch office #12**

Enkhtaivnii urgun chuluu.  
Chingiltei duureg. Ulaanbaatar.  
Telephone: (976-11) 330072  
Fax: (976-11) 330621

## **Branch office #14**

Amariin talbai. Bayan-Undur sum.  
Orkhon aimag  
Telephone: (976-01-352) 25200  
Fax: (976-01-352) 25100

## **Branch office #15**

13 dugaar bag. Darkhan sum.  
Darkhan uul aimag  
Telephone, Fax: (976-01-372) 27136

## **Branch office #16**

Undsen khuuliin gudamj. Sukhbaatar duureg.  
Ulaanbaatar. Golomt khotkhon  
Telephone, Fax: (976-11) 322943

## **Settlement Center #3**

Khan-Uul duureg,  
Chinggis Khaan International Airport  
Telephone: (976-11) 283205

## **Settlement Center #4**

Sukhbaatar duureg,  
11-r Khoroolol 7-r khoroo  
Telephone: (976-11) 350542  
(976-11) 350544

## **Settlement Center #9**

Ulaanbaatar khotiin gaaliin gazar.  
Bayangol duureg. Ulaanbaatar  
Telephone, Fax: (976-11) 242943

## **Settlement Center #10**

Kholboonii bair.  
Baganuur duureg. Ulaanbaatar  
Telephone: (976-01-21) 22333  
Fax: (976-01-21) 20818

## **Settlement Center #11**

Kherlen sum. Dornod aimag.  
Telephone: (976-01-582) 22703  
Fax: (976-01-582) 22702

## **Settlement Center #13**

Zorchigch uilchilgeenii tuv.  
Zamiin-Uud sum. Dornogovi aimag  
Telephone, Fax: (976-02-5245) 53773

## **Settlement Center #17**

Tsambagarav khudaldaanii tuv.  
1-r khoroolol. Songinokhairkhan duureg.  
Ulaanbaatar  
Telephone: (976-11) 680762  
Fax: (976-11) 680763

## **Settlement Center #18**

3-r khoroolol. Murun sum. Khuvsgul aimag.  
Telephone: (976-01-382) 21462  
Fax: (976-01-382) 21474

## **Cashier #2**

Ulaanbaatar hotel. Enkhtaivnii urgun  
chuluu. Sukhbaatar duureg. Ulaanbaatar 3/1.  
Telephone: (976-11) 313942

## **Cashier #3**

Tuushin teever uilchilgeenii tsogtsolbor.  
Tumur zamchdiin gudamj. Bayangol duureg.  
Ulaanbaatar  
Telephone: (976-11) 34541

## **Cashier #4**

Erin International. Teeverchdiin gudamj.  
Bayangol duureg. Ulaanbaatar  
Telephone: (976-11) 689612

## **Cashier #6**

Tedy uilchilgeenii tuv. Sambuugiin gudamj  
46. Chingiltei duureg. Ulaanbaatar  
Telephone: (976-11) 325970

## **Cashier #7**

Irgenii burtgel medeeleliin ulsiin tuv.  
Sukhbaatar duureg. Ulaanbaatar  
Telephone, Fax: (976-11) 350267

## **Cashier #8**

14-r bag. Darkhan sum. Darkhan uul aimag.

## **Cashier #9**

5-r bag. Darkhan sum. Darkhan uul aimag.  
Telephone, Fax: (976-01-372) 35098

## **Cashier #10**

Tamir Impex. 3-r khoroolol.  
Bayangol duureg. Ulaanbaatar  
Telephone: (976-11) 304959

## **Kacc #11**

Paradox. 4-r khoroolol. Bayangol duureg.  
Ulaanbaatar uilchilgeenii tuv  
Telephone: (976-11) 301587

## **Cashier #12**

Khiliin shalgan nevtruuleh bair.  
Zamiin-Uud sum. Dornogovi aimag.  
Telephone: (976-01-5245) 53774

## **Cashier #14**

Gaaliin rentgen khyanttiin talbai.  
Zamiin-Uud sum. Dornogovi aimag

## **Cashier #15**

Dulaankhan tosgon. Darkhan sum.  
Darkhan uul aimag.  
Telephone: (976-02-362) 40053  
Fax: (976-02-362) 40053

## **Cashier #16**

Orkhon aimag. Bayan-Undur sum. Mobicom.



**External**  
**AUDITING REPORT**

## REPORT OF THE INDEPENDENT AUDITORS

### To the shareholder of Golomt Bank of Mongolia LLC

We have audited the accompanying financial statements of Golomt Bank of Mongolia LLC as at 31 December 2006 set out on pages 3 to 31.

#### 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

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

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

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

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*  
  
*Mongolia Audit LLC*

Ulaanbaatar, Mongolia



## GOLOMT BANK OF MONGOLIA LLC

### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 MNT '000	2005 MNT '000
Interest and similar income	3	26,954,740	19,631,673
Interest and similar expenses	4	(18,282,530)	(13,283,737)
<b>Net interest income</b>		<b>8,672,210</b>	<b>6,347,936</b>
Non-interest income	5	4,713,273	4,940,171
<b>Operating income</b>		<b>13,385,483</b>	<b>11,288,107</b>
Operating expenses	6	(7,194,547)	(5,141,599)
<b>Profit before impairment losses</b>		<b>6,190,936</b>	<b>6,146,508</b>
Impairment losses	7	(2,562,829)	(2,708,498)
<b>Profit before taxation</b>		<b>3,628,107</b>	<b>3,438,010</b>
Taxation	8	(1,108,565)	(1,057,249)
<b>Profit for the year attributable to equity holders of the Bank</b>		<b>2,519,542</b>	<b>2,380,761</b>

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

## GOLOMT BANK OF MONGOLIA LLC

### BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 MNT '000	2005 MNT '000
<b>ASSETS</b>			
Cash and short term funds	9	19,907,641	11,681,078
Deposits and placements with other banks and financial institutions	10	134,307,043	102,361,395
Derivative financial instruments	11	107,919	-
Financial investments	12	14,996,837	19,977,164
Loans and advances	13	174,700,230	131,816,896
Other assets	14	4,679,112	4,218,936
Property, plant and equipment	15	3,470,099	3,077,477
Intangible assets	16	304,491	120,337
<b>TOTAL ASSETS</b>		<b>352,473,372</b>	<b>273,253,283</b>
<b>LIABILITIES</b>			
Deposits from customers	17	283,706,768	232,837,556
Deposits and placements from other banks and financial institutions	18	20,237,532	7,435,989
Loans from Bank of Mongolia	19	978,421	1,018,101
Loan from Government	20	-	500,000
Loans from local and foreign financial institutions	21	10,398,490	6,594,358
Other liabilities	22	5,427,724	4,386,989
Tax payable		430,371	205,766
<b>TOTAL LIABILITIES</b>		<b>321,179,306</b>	<b>252,978,759</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>			
Statutory fund	23	21,934,142	13,434,142
Retained earnings		9,359,924	6,840,382
<b>TOTAL EQUITY</b>		<b>31,294,066</b>	<b>20,274,524</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>352,473,372</b>	<b>273,253,283</b>

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

## GOLOMT BANK OF MONGOLIA LLC

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Statutory fund MNT '000	Distributable retained earnings MNT '000	Total MNT '000
At 1 January 2005		10,130,726	4,459,621	14,590,347
Profit for the year		-	2,380,761	2,380,761
Issued during the year	<b>23</b>	3,303,416	-	3,303,416
At 31 December 2005		<b>13,434,142</b>	<b>6,840,382</b>	<b>20,274,524</b>
Profit for the year		-	2,519,542	2,519,542
Issued during the year	<b>23</b>	8,500,000	-	8,500,000
At 31 December 2006		<b>21,934,142</b>	<b>9,359,924</b>	<b>31,294,066</b>

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

## GOLOMT BANK OF MONGOLIA LLC

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 MNT '000	2005 MNT '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before taxation</b>	3,628,107	3,438,010
<i>Adjustments for :-</i>		
Depreciation of property, plant and equipment	636,292	491,844
Amortisation of intangible assets	89,020	49,452
Property, plant and equipment written off	4,096	1,373
Impairment losses	2,562,829	2,708,498
Gain on disposal of financial investments	(22,430)	-
Fair value gains on derivative financial investments	(107,919)	-
Loss/(gain) on disposal of property, plant and equipment	1,320	(1,200)
<b>Operating profit before working capital changes</b>	6,791,315	6,687,977
<i>Changes in operating assets:-</i>		
Loans and advances	(45,446,163)	(43,559,901)
Other assets	(460,176)	(839,493)
<i>Changes in operating liabilities:-</i>		
Deposits from customers	50,869,212	85,712,983
Deposits and placements from other banks and financial institutions	12,801,543	(2,351,880)
Other liabilities	1,040,735	1,949,969
<b>Cash generated from operations</b>	25,596,466	47,599,655
Income tax paid	(883,960)	(849,934)
<b>Net cash flow generated from operating activities</b>	<b>24,712,506</b>	<b>46,749,721</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease/(increase) in financial investments	5,002,757	(15,449,484)
Proceeds on disposal of property, plant and equipment	14,804	14,412
Purchase of property, plant and equipment	(1,049,134)	(1,209,702)
Purchase of intangible assets	(273,174)	(44,545)
<b>Net cash flow generated from/(used in) investing activities</b>	<b>3,695,253</b>	<b>(16,689,319)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in statutory fund	8,500,000	3,303,416
Drawdown of loans from Bank of Mongolia	1,181,670	372,300
Repayment of loans from Bank of Mongolia	(1,221,350)	(474,199)
Drawdown of loans from government, local and foreign financial institutions	5,626,736	1,876,852
Repayment of loans from government, local and foreign financial institutions	(2,322,604)	(3,139,726)
<b>Net cash flow generated from financing activities</b>	<b>11,764,452</b>	<b>1,938,643</b>
<b>Net increase in cash and cash equivalents</b>	<b>40,172,211</b>	<b>31,999,045</b>
<b>Cash and cash equivalents brought forward (Note 24)</b>	<b>114,042,473</b>	<b>82,043,428</b>
<b>Cash and cash equivalents carried forward (Note 24)</b>	<b>154,214,684</b>	<b>114,042,473</b>

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

# GOLOMT BANK OF MONGOLIA LLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

### 1. CORPORATE INFORMATION

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

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

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

These financial statements of the Bank for the year ended 31 December 2006 were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 March 2007.

### 2. ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

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

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

#### 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (b) Fees and Commission Income

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

##### (c) Foreign Currencies Translation

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

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (d) Income Tax

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

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

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

### (e) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term funds, deposits and placements with other banks and financial institutions.

### (f) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. Financial assets are initially measured at fair value plus, in the case of financial assets not classified at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### (i) Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

In addition, a financial instrument, other than one held-for-trading, is classified in this category if it meets certain criteria and is so designated by management. This designation, once made, is irrevocable in respect of the financial instruments to which it is made. Financial assets so designated, and financial assets classified as held-for-trading, are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently remeasured at fair value. Gains or losses arising from changes in fair value are recognised in the profit or loss.

#### (ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised costs using the effective interest rate method, less allowance

for impairment. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement under 'Impairment losses'.

**(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. After initial recognition, such assets are carried at amortised cost using the effective interest method, less allowance for impairment. The amortisation is included in 'Interest and similar income' in the income statement. Losses arising from impairment of such investments are recognised in the income statement under 'Impairment losses'.

**(iv) Available-for-sale financial Assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value, with fair value changes recognised as a separate component of equity until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses on equity instruments previously recognised in the income statement that are no longer required are reversed through reserves, not through the income statement.

**(g) Determination of fair value**

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

**(h) Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or 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 loss events that has occurred after the initial recognition of the assets (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 economic conditions that correlate with defaults.

**(i) Loans and advances**

The Bank recognises allowances on loans and advances in accordance with IAS 39 which requires such allowances to be calculated as the difference between the carrying amount of the loans and advances and the present value of the estimated future cash flows discounted at the original effective interest rate. The directors compared the amount of allowances computed based on the Guidelines and Regulations issued by Bank of Mongolia with the amount of allowances computed based on the requirements of IAS 39 and found them to be not materially different. Accordingly, the directors are of the opinion that by complying with IAS 39, the Bank would have complied with the Guidelines and Regulations issued by Bank of Mongolia, which requires the Bank to recognise allowances on loans and advances based on prescribed percentages of the loans and advances outstanding balances based on the number of days a loan has been classified as non-performing, and a 1% general allowance on certain performing loans and advances outstanding of the Bank.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (h) Impairment of financial assets (contd.)

#### (ii) Held-to-maturity financial investments

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

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

#### (iii) Available-for-sale financial investments

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

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

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

#### (i) Property, Plant and Equipment

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

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

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

Buildings	40 years
Office equipment and vehicles	10 years
Computers	5 years

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



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

**(j) Intangible assets**

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

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

The intangible assets of the Bank comprise of computer software and licences and are considered to have finite useful lives. These intangible assets are amortised using the straight-line method over their estimated useful lives of 5 years.

**(k) Deposits From Customers**

Deposits from customers are stated at cost which is the fair value of the consideration to be paid in the future for deposits received.

**(l) Impairment of other assets**

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

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

**(m) Sale and Repurchase Agreements**

Securities sold subject to repurchase agreements ('repos') are retained in the financial statements as available-for-sale or held-for-maturity securities, and the counterparty liability is included in amounts due to other financial institutions or as appropriate. Securities purchased under agreement to resell ('reverse repos') are recorded as amount due from other financial institutions or as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (n) Financial guarantees

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

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

### (o) 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.

### (p) Operating Leases

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

### (q) Equity instruments

Statutory funds are classified as equity and dividends are recognised in equity in the year in which they are declared.

### (r) Financial liabilities

The Bank classifies its financial liabilities in the following categories:

- (i) financial liabilities at fair value through profit or loss; and
- (ii) non-trading liabilities.

Financial liabilities classified at fair value through profit or loss are carried at fair value, with gains and losses from change in fair value recognised through the income statement. Non-trading liabilities are carried at amortised cost using the effective interest method. A financial liability is removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

### (s) Financial instruments

Financial instruments are recognised in the balance sheet when the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement.

Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

**(t) Derivative financial instruments**

Derivative financial instruments including foreign exchange contracts and forward rate agreements. The derivative financial instruments are recorded at fair value and carried as assets when fair value is positive and as liabilities when fair value is negative. Fair value are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivatives held for trading are included in 'Non interest income'.

## **2.3 CHANGE IN ACCOUNTING POLICIES**

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these new and amended standards and interpretations does not have any effect on equity and changes in comparative figures as at 1 January 2006.

- \* IAS 19 Amendment - Actuarial Gains and Losses, Group Plans and Disclosures
- \* IAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- \* IAS 39 Amendment - The Fair Value Option
- \* IAS 39 and IFRS 4 Amendment - Financial Guarantee Contracts
- \* IFRS 6 - Exploration for and Evaluation of Mineral Resources
- \* IFRIC 4 - Determining whether an Arrangement contains a Lease.

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

- \* IFRS 7 - Financial Instruments: Disclosures
- \* IAS 1 - Amendment - Presentation of Financial Statements
- \* IFRIC 8 - Scope of IFRS 2
- \* IFRIC 9 - Reassessment of Embedded Derivatives
- \* IFRIC 10 - Interim Financial Reporting and Impairment
- \* IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions
- \* IFRIC 12 - Service Concession Arrangements.

The directors anticipate that the adoption of these Standards, Amendments and Interpretations in the financial year ended 31 December 2007 will have no material impact on the financial statements of the Bank. They will however give rise to additional disclosures.

## **2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

**(i) Valuation of financial instruments**

Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active market, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to those 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 judgments include considerations of liquidity and model inputs such as correlation and volatility for derivatives.

## 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTD.)

### (ii) Impairment losses on loans and advances

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

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

## 3. INTEREST AND SIMILAR INCOME

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Loans and advances	22,480,303	17,043,586
Deposits and placements with other banks and financial institutions	3,959,726	1,504,625
Financial investments - available-for-sale	490,163	1,043,717
Financial investments - held-to-maturity	24,548	39,745
	<b>26,954,740</b>	<b>19,631,673</b>

## 4. INTEREST AND SIMILAR EXPENSES

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Current account deposits	601,318	681,190
Time and demand deposits	16,810,778	11,766,703
Loans from government, local and foreign financial institutions	638,323	749,355
Placements from other banks and financial institutions	232,111	86,489
	<b>18,282,530</b>	<b>13,283,737</b>

## 5. NON-INTEREST INCOME

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Fee and commission income:</b>		
Service charges and fees	1,866,869	1,633,695
Credit cards advance fees	1,312,204	949,638
Other fees income	1,226,588	999,835
	<b>4,405,661</b>	<b>3,583,168</b>
<b>Other income:</b>		
Realised foreign exchange gain	683,533	1,762,439
Unrealised foreign exchange loss	(446,866)	(473,199)
Gain on disposal of financial investment	22,430	-
Other operating income	48,515	67,763
	<b>307,612</b>	<b>1,357,003</b>
Total non-interest income	<b>4,713,273</b>	<b>4,940,171</b>

## 6. OPERATING EXPENSES

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Advertising	275,517	196,728
Communication	380,718	360,941
Depreciation of property, plant and equipment (Note 15)	636,292	491,844
Amortisation of intangible assets (Note 16)	89,020	49,452
Entertainment	21,059	17,314
Other operating expenses	843,923	566,450
Staff costs *	1,787,838	1,186,928
Rental of premises	1,105,036	842,085
Safety expenses	515,362	204,527
Service charges	1,015,137	692,289
Stationery	263,081	224,050
Traveling expenses	256,148	308,818
Loss/(gain) on disposal of property, plant and equipment (Note 15)	1,320	(1,200)
Property, plant and equipment written-off (Note 15)	4,096	1,373
	<b>7,194,547</b>	<b>5,141,599</b>
* Staff Costs		
Salaries, wages and bonus	1,410,357	939,676
Contribution to Social and Health Fund	271,250	180,858
Staff training	94,533	66,394
Staff benefit	11,698	-
	<b>1,787,838</b>	<b>1,186,928</b>

## 7. IMPAIRMENT LOSSES

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Loans and advances	2,562,829	2,686,068
Financial investments	-	22,430
	<b>2,562,829</b>	<b>2,708,498</b>

## 8. TAXATION

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Current income tax:</b>		
Based on results for the year	<b>1,108,565</b>	<b>1,057,249</b>

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of bank is 15% (2005: 15%) for the first MNT100 million of taxable income, and 30% (2005: 30%) on the excess of taxable income over MNT100 million. Interest income on government bonds is not subject to income tax. Impairment for loans and advances is deductible for income tax purposes.

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

## 8. TAXATION (CONTD.)

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Profit before taxation	<b>3,628,107</b>	<b>3,438,010</b>
Tax at statutory tax rate of 30% (2005: 30%)	1,088,432	1,031,403
Effect of income not subject to tax	(7,365)	(11,923)
Effect of expenses not allowable for tax purposes	42,498	52,769
Effect of income subject to lower tax rate	(15,000)	(15,000)
Tax expense for the year	<b>1,108,565</b>	<b>1,057,249</b>

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

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

## 9. CASH AND SHORT TERM FUNDS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Cash and short term funds represented by:		
Local currency	8,375,454	4,655,698
Foreign currencies	11,532,187	7,025,380
	<b>19,907,641</b>	<b>11,681,078</b>

Other information on financial risk of cash and short term funds are disclosed in Note 25.

## 10. DEPOSITS AND PLACEMENTS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Current accounts with Bank of Mongolia	20,222,530	18,890,823
Placements with other banks and financial institutions	114,084,513	83,470,572
	<b>134,307,043</b>	<b>102,361,395</b>

Current accounts with Bank of Mongolia are maintained in accordance with Bank of Mongolia's requirements and bear no interest. The balances maintained with Bank of Mongolia are determined at set percentages based on 15 days average cash balances.

Placements with other banks and financial institutions amounted to MNT39.24 million (2005: MNT37.05 million) are pledged to a bank as security for loan granted as referred in Note 21.

Other information on financial risk of deposits and placements with other banks and financial institutions are disclosed in Note 25.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

The information below shows the fair value of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, 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.

### Derivatives held for trading forward foreign exchange contracts

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Assets	107,919	-
Liabilities	-	-
Notional amount	<b>264,147,372</b>	-

As at 31 December 2006, the forward foreign exchange contracts related to the deals with customers which are laid off within counterparties.

Other information on financial risk of derivative financial instruments are disclosed in Note 25.

### 12. FINANCIAL INVESTMENTS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Available-for-sale:		
Bank of Mongolia treasury bills, at fair value	14,995,837	17,746,082
Unquoted investment in equities, at costs	1,000	-
	<b>14,996,837</b>	<b>17,746,082</b>
Held-to-maturity:		
Promissory notes, at amortised cost	-	2,253,512
Allowance for impairment losses	-	(22,430)
	-	<b>2,231,082</b>
	<b>14,996,837</b>	<b>19,977,164</b>

Bank of Mongolia treasury bills are interest bearing short term bills with maturities of less than three months, and are issued at a discount. Promissory note for the year 2005 are issued by private corporation with 180 - 300 days maturity period.

Unquoted investment in equities represents investment in Mongolian Mortgage Corporation. The investment is recorded at cost due to the absence of quoted market price and the fair value cannot be reliably measured using valuation techniques.

Other information on financial risk of financial investments are disclosed in Note 25.

### 13. LOANS AND ADVANCES

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Term loans	182,996,231	134,099,855
Project funded loans	804,485	6,091,921
Credit cards	1,877,601	379,251
Staff loans	393,623	468,863
Accrued interest receivables	966,144	1,356,472
Gross loans and advances	187,038,084	142,396,362
Allowance for impairment losses		
- specific	(11,560,165)	(8,766,491)
- collective	(777,689)	(1,812,975)
Net loans and advances	<b>174,700,230</b>	<b>131,816,896</b>

### 13. LOANS AND ADVANCES (CONTD.)

Loans and advances analysed by their economic purposes are as follows:

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Trading	77,506,275	37,719,460
Processing related industries	30,852,066	36,581,216
Mining	12,987,499	16,667,479
Construction	9,921,933	7,714,706
Power, gas and water supply	1,638,151	6,570,819
Hospitality	1,694,059	8,164,396
Transportation and communication	7,190,638	4,887,566
Leasing	12,080,487	7,160,910
Health and Education	3,663,116	2,228,914
Interbank	1,956,756	6,933,020
Agriculture	5,728,239	965,599
Others	21,818,865	6,802,277
	<b>187,038,084</b>	<b>142,396,362</b>

In accordance with guidelines and regulations issued by Bank of Mongolia, a loan is classified as non-performing when payment of interest and principal is overdue by more than 90 days. The details of non-performing loans ('NPLs') are as follows:

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Gross balance at end of year	12,450,557	12,239,589
Less: Allowance for impairment losses	(10,971,335)	(8,720,110)
Net balance at year end	1,479,222	3,519,479
Gross NPLs as a percentage of gross total loans	<b>6.66%</b>	<b>8.60%</b>
Net NPLs as a percentage of net total loans	<b>0.85%</b>	<b>2.67%</b>

Movements in allowance for impairment losses are as follows:

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Specific Impairment</b>		
At 1 January	8,766,491	6,971,125
Impairment made during the year	4,788,386	3,949,112
Amount written back in respect of recoveries	(1,205,017)	(2,035,906)
Amount written off	(781,800)	-
Exchange difference	(7,895)	(117,840)
At 31 December	<b>11,560,165</b>	<b>8,766,491</b>
	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Collective Impairment</b>		
At 1 January	1,812,975	1,038,519
Impairment made during the year	480,710	1,391,514
Amount written back in respect of recoveries	(1,501,250)	(618,652)
Exchange difference	(14,746)	1,594
At 31 December	<b>777,689</b>	<b>1,812,975</b>



The allowances for impairment losses is considered adequate by the management based upon their formal reviews and analysis of existing credits using their knowledge of prevailing and anticipated economic conditions.

Other information on financial risks of loans and advances are disclosed in Note 25.

#### 14. OTHER ASSETS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Other receivables	1,304,848	1,726,917
Less: Allowance for impairment	-	(12,281)
	1,304,848	1,714,636
Prepaid expenses	3,065,234	2,288,140
Consumables and other inventories	309,030	216,160
	<b>4,679,112</b>	<b>4,218,936</b>

The information on financial risks of other receivables are disclosed in Note 25.

#### 15. PROPERTY, PLANT AND EQUIPMENT

<b>31 December 2006</b>	<b>Buildings</b>	<b>Leasehold</b>	<b>Office equipment</b>	<b>Total</b>
	<b>MNT '000</b>	<b>improvements</b>	<b>and vehicles</b>	<b>MNT '000</b>
		<b>MNT '000</b>	<b>MNT '000</b>	<b>MNT '000</b>
<b>At cost</b>				
At 1 January 2006	1,238,443	30,538	3,534,774	4,803,755
Additions	22,908	-	1,026,226	1,049,134
Disposals	-	-	(50,414)	(50,414)
Write-offs (Note 6)	-	-	(81,534)	(81,534)
At 31 December 2006	<b>1,261,351</b>	<b>30,538</b>	<b>4,429,052</b>	<b>5,720,941</b>
<b>Accumulated depreciation</b>				
At 1 January 2006	173,804	19,001	1,533,473	1,726,278
Charge for the year (Note 6)	63,129	3,053	570,110	636,292
Disposals	-	-	(34,290)	(34,290)
Write-offs (Note 6)	-	-	(77,438)	(77,438)
At 31 December 2006	<b>236,933</b>	<b>22,054</b>	<b>1,991,855</b>	<b>2,250,842</b>
<b>Net book value</b>	<b>1,024,418</b>	<b>8,484</b>	<b>2,437,197</b>	<b>3,470,099</b>

## 15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

31 December 2005	Buildings MNT '000	Leasehold improvements MNT '000	Office equipment and vehicles MNT '000	Total MNT '000
<b>At cost</b>				
At 1 January 2005	815,558	30,538	2,861,314	3,707,410
Additions	422,885	-	786,817	1,209,702
Disposals	-	-	(48,207)	(48,207)
Write-offs (Note 6)	-	-	(65,150)	(65,150)
At 31 December 2005	<b>1,238,443</b>	<b>30,538</b>	<b>3,534,774</b>	<b>4,803,755</b>
<b>Accumulated depreciation</b>				
At 1 January 2005	132,106	15,948	1,185,152	1,333,206
Charge for the year (Note 6)	41,698	3,053	447,093	491,844
Disposals	-	-	(34,995)	(34,995)
Write-offs (Note 6)	-	-	(63,777)	(63,777)
At 31 December 2005	<b>173,804</b>	<b>19,001</b>	<b>1,533,473</b>	<b>1,726,278</b>
<b>Net book value</b>	<b>1,064,639</b>	<b>11,537</b>	<b>2,001,301</b>	<b>3,077,477</b>

## 16. INTANGIBLE ASSETS

	Software and Licenses 2006 MNT '000	2005 MNT '000
<b>At Cost</b>		
At 1 January	276,319	231,774
Addition	273,174	44,545
At 31 December	<b>549,493</b>	<b>276,319</b>
<b>Accumulated Amortisation</b>		
At 1 January	155,982	106,530
Charge for the year (Note 6)	89,020	49,452
At 31 December	<b>245,002</b>	<b>155,982</b>
<b>Net Book Value</b>	<b>304,491</b>	<b>120,337</b>

## 17. DEPOSITS FROM CUSTOMERS

	2006 MNT '000	2005 MNT '000
Current account deposits	61,901,109	61,482,162
Demand account deposits	72,090,958	58,108,546
Time deposits	115,442,772	97,796,708
Government deposits	22,419,829	11,969,794
Other deposits	11,852,100	3,480,346
	<b>283,706,768</b>	<b>232,837,556</b>

Other information on the financial risks of deposits from customers are disclosed in Note 25.

## 18. DEPOSITS AND PLACEMENTS FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Foreign currency current account and deposits	10,624,934	5,502,785
Local currency current account and deposits	9,612,598	1,933,204
	<b>20,237,532</b>	<b>7,435,989</b>

Foreign currency and local currency current account and deposits are placed by local commercial banks.

Other information on financial risks of deposits and placements from other banks and financial institutions are disclosed in Note 25.

## 19. LOANS FROM BANK OF MONGOLIA

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Unsecured:</b>		
Loans from Bank of Mongolia	<b>978,421</b>	<b>1,018,101</b>

These borrowings bear an interest rate of 10% (2005: 10%) per annum. According to the repayment schedule, the final repayment of these borrowings is due in July 2005. The loan was however rescheduled and is accordingly due in June 2007.

Other information on financial risks of loans from Bank of Mongolia are disclosed in Note 25.

## 20. LOAN FROM GOVERNMENT

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Unsecured:</b>		
Loan from government	-	<b>500,000</b>

The interest rate of the loan for 2005 is fixed at 6% per annum. The loan was fully settled during the year.

Other information on financial risks of loan from government are disclosed in Note 25.

## 21. LOANS FROM LOCAL AND FOREIGN FINANCIAL INSTITUTIONS

	<b>2006</b>	<b>2005</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Secured:</b>		
Landesbank Berlin	<b>479,931</b>	<b>464,349</b>
<b>Unsecured:</b>		
World Bank Loan I	1,141,952	2,142,472
World Bank Loan II	778,878	1,307,248
World Bank Loan III	336,615	385,355
Asian Development Bank	3,161,114	2,294,934
Subordinated loan from Mongol Post Bank LLC	4,500,000	-
	<b>9,918,559</b>	<b>6,130,009</b>
<b>Total</b>	<b>10,398,490</b>	<b>6,594,358</b>

## 21. LOANS FROM LOCAL AND FOREIGN FINANCIAL INSTITUTIONS (CONTD.)

### Landesbank Berlin

The Landesbank Berlin loan is used to finance the purchase of a building in Germany. The interest rate of the loan is 7.45% to 8.87% (2005: 7.45%) per annum. The Bank commenced quarterly principal repayments in June 1996 and the final repayment is due in September 2025. The loan is secured on placements with other banks and financial institutions as referred in Note 10.

### World Bank Loan I

The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 7.63% to 8.42% (2005: 5.63% to 7.63%) per annum. The repayment of the loan is in accordance with various repayment schedules, with the final payment due in March 2010.

### World Bank Loan II

The World Bank loan is channeled to various borrowers under the Private Sector Development Credit Programme. The interest rate of the World Bank loan ranges from 7.46% to 9.81% (2005: 9.13% to 15.96%) per annum. The final repayment of the loan is in accordance with various repayment schedules, with the final repayment due in June 2009.

### World Bank Loan III

The loan is utilised for staff training purposes. The interest rate of the loan is fixed at 2% (2005: 2%) per annum with half yearly principal repayment commencing on November 2004 and final repayment due in May 2019 in accordance with the repayment schedule.

### Asian Development Bank

The loan was disbursed to housing loan borrowers. The interest rate on the loans is between 8.13% to 8.29% (2005: 7.9% to 8.2%) per annum. Terms of repayment of the loan are in accordance with the various repayment schedules.

### Mongol Post Bank LLC

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

The Bank has not had any default of principal, interest or other breaches with respect to their liabilities during the year. Other information on financial risks of loans from local and foreign financial institutions are disclosed in Note 25.

## 22. OTHER LIABILITIES

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Payables	3,862,371	3,200,917
Foreign remittance under request	220,137	161,095
Delay on clearing settlement	1,319,758	1,020,884
Other payables	25,458	4,093
	<b>5,427,724</b>	<b>4,386,989</b>

Other information on financial risks of other liabilities are disclosed in Note 25.

## 23. STATUTORY FUND

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
At 1 January	13,434,142	10,130,726
Issued during the year	8,500,000	3,303,416
At 31 December	<b>21,934,142</b>	<b>13,434,142</b>

During the year, the Bank increased its statutory fund from MNT13.43 billion to MNT21.93 billion as approved by the Bank of Mongolia.

## 24. CASH AND CASH EQUIVALENTS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Cash and short term funds	19,907,641	11,681,078
Deposits and placements with other banks and financial institutions	134,307,043	102,361,395
	<b>154,214,684</b>	<b>114,042,473</b>

## 25. FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks are as follows:

### Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved regularly by the Bank's management team.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collaterals.

Apart from deposits and placements with other banks and financial institutions amounting to MNT99.3 billion (2005: MNT75.6 billion) and property, plant and equipment amounting to MNT461 million (2005: MT476 million), all banking assets and liabilities were geographically concentrated in Mongolia.

### Credit related commitments

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.

### 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 table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December.

## 25. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

### Currency risk (contd.)

The financial assets and financial liabilities of the Bank are denominated in the following currencies:

	Local Currency MNT'000	USD MNT'000	Foreign Currencies		Total MNT '000
			EURO MNT '000	Others MNT '000	
<b>As at 31 December 2006</b>					
<b>Assets</b>					
Cash and short term funds	8,375,454	5,181,998	749,511	5,600,678	19,907,641
Deposits and placements with other banks and financial institutions	20,505,241	101,997,262	6,137,143	5,667,397	134,307,043
Derivative financial instruments	-	7,171	-	100,748	107,919
Financial investments	14,996,837	-	-	-	14,996,837
Loans and advances	60,085,883	112,882,959	1,186,745	544,643	174,700,230
Other assets - other receivables	855,618	444,100	-	5,130	1,304,848
	<b>104,819,033</b>	<b>220,513,490</b>	<b>8,073,399</b>	<b>11,918,596</b>	<b>345,324,518</b>
<b>Liabilities</b>					
Deposits from customers	128,812,365	140,641,729	4,114,383	10,138,291	283,706,768
Deposits and placements from other banks and financial institutions	9,612,599	10,331,741	16,854	276,338	20,237,532
Loans from Bank of Mongolia	978,421	-	-	-	978,421
Loans from local and foreign financial institutions	8,439,991	1,478,568	479,931	-	10,398,490
Other liabilities	1,062,750	4,210,598	80,113	74,263	5,427,724
	<b>148,906,126</b>	<b>156,662,636</b>	<b>4,691,281</b>	<b>10,488,892</b>	<b>320,748,935</b>
<b>Net position</b>	<b>(44,087,093)</b>	<b>63,850,854</b>	<b>3,382,118</b>	<b>1,429,704</b>	<b>24,575,583</b>

**Currency risk (contd.)**

The financial assets and financial liabilities of the Bank are denominated in the following currencies:

	<b>Local Currency MNT'000</b>	<b>USD MNT'000</b>	<b>Foreign Currencies</b>		<b>Total MNT '000</b>
			<b>EURO MNT '000</b>	<b>Others MNT '000</b>	
<b>As at 31 December 2005</b>					
<b>Assets</b>					
Cash and short term funds	4,655,698	3,478,871	744,898	2,801,611	11,681,078
Deposits and placements with other banks and financial institutions	12,895,347	69,216,253	8,079,100	12,170,695	102,361,395
Financial investments	17,746,082	2,231,082	-	-	19,977,164
Loans and advances	35,127,264	96,476,420	107,301	105,911	131,816,896
Other assets - other receivables	407,468	675,361	36	631,771	1,714,636
	<b>70,831,859</b>	<b>172,077,987</b>	<b>8,931,335</b>	<b>15,709,988</b>	<b>267,551,169</b>
<b>Liabilities</b>					
Deposits from customers	79,465,549	140,365,764	6,735,301	6,270,942	232,837,556
Deposits and placements from other banks and financial institutions	5,502,785	900,633	765,331	267,240	7,435,989
Loans from Bank of Mongolia	1,018,101	-	-	-	1,018,101
Loan from Government	500,000	-	-	-	500,000
Loans from local and foreign financial institutions	3,602,182	2,527,827	464,349	-	6,594,358
Other liabilities	602,780	3,508,889	112,444	162,876	4,386,989
	<b>90,691,397</b>	<b>147,303,113</b>	<b>8,077,425</b>	<b>6,701,058</b>	<b>252,772,993</b>
<b>Net position</b>	<b>(19,859,538)</b>	<b>24,774,874</b>	<b>853,910</b>	<b>9,008,930</b>	<b>14,778,176</b>

## 25. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

### Liquidity risk

The Bank is exposed to liquidity risks which is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank's Assets and Liabilities Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The following table analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The contractual maturities of financial assets and liabilities for the year ended 31 December 2006 are as follows (MNT '000):

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Assets</b>						
Cash and short term funds	19,907,641	-	-	-	-	19,907,641
Deposits and placements with other banks and financial institutions	111,989,895	17,777,900	-	4,500,000	39,248	134,307,043
Derivative financial institutions	107,919	-	-	-	-	107,919
Financial investments	14,995,837	-	-	1,000	-	14,996,837
Loans and advances	56,570,033	29,915,524	44,746,350	41,287,696	2,180,627	174,700,230
Other assets - other receivables	1,202,310	5,073	97,465	-	-	1,304,848
	<b>204,773,635</b>	<b>47,698,497</b>	<b>44,843,815</b>	<b>45,788,696</b>	<b>2,219,875</b>	<b>345,324,518</b>
<b>Liabilities</b>						
Deposits from customers	219,740,169	33,464,323	30,433,692	68,584	-	283,706,768
Deposits and placements from other banks and financial institutions	19,206,572	1,000,000	30,960	-	-	20,237,532
Loans from Bank of Mongolia	141,931	335,447	414,539	86,504	-	978,421
Loans from local and foreign financial institutions	359,773	317,515	556,384	7,098,744	2,066,074	10,398,490
Other liabilities	5,290,459	125,464	11,801	-	-	5,427,724
	<b>244,738,904</b>	<b>35,242,749</b>	<b>31,447,376</b>	<b>7,253,832</b>	<b>2,066,074</b>	<b>320,748,935</b>
<b>Net liquidity gap</b>	<b>(39,965,269)</b>	<b>12,455,748</b>	<b>13,396,439</b>	<b>38,534,864</b>	<b>153,801</b>	<b>24,575,583</b>
<b>Accumulated gap</b>	<b>(39,965,269)</b>	<b>(27,509,521)</b>	<b>(14,113,082)</b>	<b>24,421,782</b>	<b>24,575,583</b>	



The contractual maturities of financial assets and liabilities for the year ended 31 December 2005 are as follows (MNT '000):

	<b>Less than 3 months</b>	<b>3 to 6 months</b>	<b>6 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and short term funds	11,681,078	-	-	-	-	11,681,078
Deposits and placements with other banks and financial institutions	83,398,849	16,483,500	2,442,000	-	37,046	102,361,395
Financial investments	19,460,010	517,154	-	-	-	19,977,164
Loans and advances	46,768,334	31,725,864	29,239,163	22,649,747	1,433,788	131,816,896
Other assets - other receivables	1,458,863	255,773	-	-	-	1,714,636
	<b>162,767,134</b>	<b>48,982,291</b>	<b>31,681,163</b>	<b>22,649,747</b>	<b>1,470,834</b>	<b>267,551,169</b>
<b>Liabilities</b>						
Deposits from customers	202,222,289	14,878,467	15,630,461	106,339	-	232,837,556
Deposits and placements from other banks and financial institutions	7,435,989	-	-	-	-	7,435,989
Loans from Bank of Mongolia	251,201	71,000	498,900	197,000	-	1,018,101
Loan from Government	-	500,000	-	-	-	500,000
Loans from local and foreign financial institutions	400,065	620,448	634,753	3,139,541	1,799,551	6,594,358
Other liabilities	4,386,536	453	-	-	-	4,386,989
	<b>214,696,080</b>	<b>16,070,368</b>	<b>16,764,114</b>	<b>3,442,880</b>	<b>1,799,551</b>	<b>252,772,993</b>
<b>Net liquidity gap</b>	<b>(51,928,946)</b>	<b>32,911,923</b>	<b>14,917,049</b>	<b>19,206,867</b>	<b>(328,717)</b>	<b>14,778,176</b>
<b>Accumulated gap</b>	<b>(51,928,946)</b>	<b>(19,017,023)</b>	<b>(4,099,974)</b>	<b>15,106,893</b>	<b>14,778,176</b>	

#### Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's effective interest rates per annum in 2006 and 2005 for monetary financial instruments not carried at fair values through profit or loss are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>MNT</b>	<b>Foreign currencies</b>	<b>MNT</b>	<b>Foreign currencies</b>
<b>Interest earning assets</b>				
Deposits and placements with other banks and financial institutions	4.25% - 8.00%	5.00% - 10.80%	4.25% - 8.00%	8.00%
Bank of Mongolia treasury bills	1.91% - 9.55%	-	1.91% - 9.55%	-
Promissory notes	-	12.00%	19.20%	12.00%
Loans and advances	6.00% - 42.00%	12.00% - 26.40%	6.00% - 42.00%	12.00% - 26.40%

## 25. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

### Interest rate risk (contd.)

	2006		2005	
	MNT	Foreign currencies	MNT	Foreign currencies
<b>Interest bearing liabilities</b>				
Current account deposits	1.20% - 3.60%	1.20%	1.20% - 3.60%	1.20%
Time deposits	7.56 % - 18.60%	3.96% - 8.40%	12.00% -17.40%	6.00% - 8.16%
Demand deposits	7.20%	3.60%	7.20%	3.60%
Government deposits	4.50%	-	4.50%	-
Other deposits	7.20% - 16.80%	3.60% - 8.40%	7.20% - 17.40%	3.60% - 8.16%
Placements from other banks and financial institutions	3.60% - 12.0%	5.0% - 9.0%	3.00% - 4.80%	3.00% - 4.00%
Loans from Bank of Mongolia	10.00%	-	10.00%	-
Loan from government	6.00%	-	6.00%	-
Loans from local and foreign financial institutions	7.46% - 15.96%	2.00% - 8.87%	7.92% - 15.96%	2.00% - 7.63%

## 26. RELATED PARTY DISCLOSURES

The Bank is controlled by Bodi International Co. Limited which owns 100% of statutory funds 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 31 December, the Bank has the following balances and transactions with related parties, which are companies in which the directors has substantial financial interest:

	2006 MNT '000	2005 MNT '000
<b>a) Loans and advances to fellow subsidiaries</b>	215,285	-

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

	2006 MNT '000	2005 MNT '000
<b>b) Deposits from related companies:</b>		
Holding company	164,076	9,160
Fellow subsidiaries	1,736,941	3,150,457
	<b>1,901,017</b>	<b>3,159,617</b>

The deposits from the above related companies bore interest rates from 3.00% to 13.20% (2005: 3.00% to 13.20%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT72.74million (2005: MNT54.40 million).

	2006 MNT '000	2005 MNT '000
<b>c) Purchase of computers and software from fellow subsidiaries</b>	206,003	302,585
<b>d) Rental of garage to fellow subsidiaries</b>	1,268	1,672

**e) Lease agreement with Bodi International Co. Limited**

In November 2002, the Bank moved to its new Head Office located at Sukhbaatar Square 3, Ulaanbaatar, Mongolia. The building is owned by the holding company, Bodi International Co.Ltd. The Bank entered into a lease agreement for 6 years until the year 2008. The bank has prepaid the lease payment amounting to MNT3.2 billion in 2003. As at 31 December 2006, the balance of prepayment is MNT 1,094 million (2005: MNT1,619 million). Further details of the lease arrangement is disclosed in Note 27.

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>f) Compensation of key management personnel</b>		
Salaries	59,907	44,687
Contribution to social and health fund	11,382	8,491
	<b>71,289</b>	<b>53,178</b>

**27. OPERATING LEASE ARRANGEMENT**

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

**28. CAPITAL ADEQUACY**

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

	<b>2006</b>	<b>2005</b>
Core capital ratio	14.58%	12.27%
Risk weighted capital ratio	<b>16.68%</b>	<b>12.27%</b>

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Tier I capital</b>		
Statutory fund	21,934,142	13,434,142
Retained earnings	9,359,924	6,840,382
Total Tier I Capital	<b>31,294,066</b>	<b>20,274,524</b>
<b>Tier II capital</b>		
Subordinated loan	4,500,000	-
Total capital /capital base	<b>35,794,066</b>	<b>20,274,524</b>

Breakdown of risk weighted assets in the various categories of risk weights are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Assets</b>	<b>Risk Weighted</b>	<b>Assets</b>	<b>Risk Weighted</b>
	<b>MNT '000</b>	<b>MNT '000</b>	<b>MNT '000</b>	<b>MNT '000</b>
%				
0	54,346,543	-	47,201,919	-
10	-	-	-	-
20	111,911,673	22,382,335	85,386,487	17,077,297
50	1,623,042	811,521	68,123	34,062
100	191,441,790	191,441,790	148,106,171	148,106,171
Total	<b>359,323,048</b>	<b>214,635,646</b>	<b>280,762,700</b>	<b>165,217,530</b>

## 29. CAPITAL COMMITMENTS

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
<b>Approved and contracted for:</b>		
Property, plant and equipment	<b>317,751</b>	<b>106,227</b>

## 30. COMMITMENTS AND OFF BALANCE SHEET ITEMS

### a) Financial Commitments and Off Balance Sheet Items

In the normal course of business, the Bank incurs certain commitments with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	<b>2006</b>	<b>2005</b>
	<b>MNT '000</b>	<b>MNT '000</b>
Guarantees and letter of credits	5,882,277	17,874,510
Other off balance sheet items	1,044,269	259,102
	<b>6,926,546</b>	<b>18,133,612</b>

### b) Foreign exchange commitments and derivatives.

In the normal course of the business, the Bank enters into foreign currency exchange contracts with third parties. As at 31 December 2005 the Bank has NIL open positions (2005: NIL open positions) on foreign currency exchange forward contracts.

### c) Other off balance sheet items.

At 31 December 2006 and 2005, other off balance sheet items comprise loans written off on non-performing loans and the interest suspended.

## 31. COMPARATIVES

The presentation and classification of items in the current year financial statements have been consistent with the previous financial year except that certain comparative amounts as at 31 December 2005 have been reclassified to conform with current year's presentation as described below:

	<b>As previously stated</b>	<b>Adjustments</b>	<b>As restated</b>
	<b>MNT '000</b>	<b>MNT '000</b>	<b>MNT '000</b>
<b>Balance sheet</b>			
Property, plant and equipment	3,197,814	(120,337)	3,077,477
Intangible assets	-	120,337	120,337
<b>Income statement</b>			
Non-interest income	4,941,371	(1,200)	4,940,171
Operating expenses	(5,142,799)	1,200	(5,141,599)

## 32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. Where quoted market prices are not available, the fair values are measured at discounted rates commensurate with the quality and duration of the asset or liability.

A considerable portion of the financial instruments as at 31 December 2006 and 2005 are short term in nature with maturities of less than one year. Besides, the current market rate for similar financial instruments are not materially different from the effective interest rate of the Bank's financial assets and liabilities when they are first recognised. Based on fair value assessments as indicated above, the estimated fair values of those financial assets and financial liabilities, both short and long term as at the balance sheet date, approximate their carrying amounts as shown in the balance sheet.

### **33. MONGOLIAN TRANSLATION**

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

