GOLOMT BANK

Committed to and Investing in Excellence

ANNUAL REPORT **2012**

CONTENTS

REPORT OF THE CHIEF EXECUTIVE OFFICER

G.GANBOLD
Chief Executive Officer

In 2012, Golomt Bank sustained low risk and prudent financial ratios in the banking system. The key indicators were capital adequacy ratio of 13.3 per cent., liquidity ratio of 41.1 per cent., the highest in the banking system, and loans to deposits ratio of 69.4 per cent., the lowest in the system.

To our Esteemed Clients, Shareholders, Business Partners and Colleagues!

It is my pleasure to report to you upon Golomt Bank's performance during 2012, our 18th year of continued success.

In the year of 2012, many developed countries experienced weaker economic growth while developing countries endured sluggish growth. European sovereign debt crisis combined with uncertainty in the economic policy in the United States contributed to reduction of investment flows and employment rate in the region, resulting in declines in demand of manufacturing products across developing countries, especially in China. These circumstances served as basis of price fall in the commodity market, posing a serious challenge to Canada, Australia and other countries whose economy heavily rely upon natural resources, including Mongolia.

Although the amount of coal export did not fall significantly in 2012, price for coal was lower by 15 per cent. and thereby the revenue from coal dropped by USD 400 million. The impact translated into lower GDP growth rate in Mongolia at 12.3 per cent. which peaked at 17.5 per cent. the year before. However prominent growth in the agricultural sector in Mongolia reached a record 21.3 per cent. in real terms and contributed substantially for the economic growth. Accordingly, supported by consistent growth in other sectors, Mongolia retained its top position in terms of economic growth in the world.

Money supply in the economy reached MNT 7.6 trillion, half the growth of previous year. Our central bank, The Bank of Mongolia tightened monetary policy by raising minimum capital requirements for commercial banks up to 13 per cent. and policy rate to 13.25 per cent.. These factors influenced the rise in deposit and loan interest rates during 2012.

Against this challenging environment, thanks to our internal capacity and trusted clients, partners and together with our most proficient and striving employees, Golomt Bank successfully achieved increase of 18 per cent. year-on-year in total assets to reach MNT 2.53 (USD 1.82 billion) trillion that constituted 21.1 per cent. of the banking system. We continued to retain our leading role in deposits as total deposits grew by 12 per cent. to reach MNT 2.06 (USD 1.48 billion) trillion which constituted 26 per cent. in the banking system. Net loans increased by 14 per cent. to reach MNT 1.43 trillion (USD 1.03 billion), comprising 20.6 per cent. of the banking system. Capital rose by 18.2 per cent. to reach MNT 222.1 billion (USD 159.6 million). Tier 1 capital grew by MNT 48.2 billion to reach MNT 187.3 billion, following MNT 21 billion (USD 15.9 million) equity investment by Trafigura Beheer B.V. company and organic growth from net profit of MNT 26.6 billion over the course of the year.

In 2012, 12 new branch offices were established to bring the total at 92. In addition to expansion of physical branches, the Bank installed 6 cash deposit taking ATMs and established 3 "Self Service Banking" units entailing extensive banking function for the first time in Mongolia. Furthermore, the number of ATM network grew by 36 per cent. reaching 165 units.

We have pioneered to lead commercial banks with our "Smart Banking Service", the mobile application for smart phones. This application was selected as "Mongolia's First Banking Application" in the "App Store" and the Bank received the "Best E-Banking Service Provider" award from the Mongolian National Chamber of Commerce and Industry. One of the keys to successful banking business is safeguarding the security of the information technology system and infrastructure. Over the course of the reporting year, the security of information technology within the Bank was audited by internationally renowned firm, "Deloitte & Touche Enterprise Risk Services", developed policy documents on information technology security to comply with the international ISO 27001 standard, upgraded and reorganized the Bank's disaster recovery center, expanded and updated infrastructure and software step by step, and improved 24/7 monitoring system. Subsequent to multi-staged selection process, InfoSys, the world-leading system provider, was selected to collaborate in updating the Bank's core banking system.

In 2012, Golomt Bank sustained low risk and prudent financial ratios in the banking system. The key indicators were capital adequacy ratio of 13.3 per cent., liquidity ratio of 41.1 per cent., the highest in the banking system, and loans to deposits ratio of 69.4 per cent., the lowest in the system.

Moody's Investors Service assigned standalone bank financial strength rating (BFSR) of E+ and baseline credit assessment of B1 on the long-term scale. Standard and Poor's Ratings Services assigned "B+" long-term and "B" short-term issuer credit ratings on Golomt Bank. The result is a testament that Golomt Bank maintained the position of the country's leading bank in domestic financial services sector and highly empowered by diversifying our capital base from different sources.

Within the framework of corporate social responsibility, Golomt Bank enforces a lending policy of restraining any support to projects with negative impact on the environment. During the year the Bank selected the most Eco business oriented projects and provided them low-interest loan. Additionally, Golomt Bank sponsored and organized the 11th Students' Scientific Conference, and Students Scholarship Programme for the 10th consecutive year successfully, contributing for the development of educational sector. In support of sports and culture, the Bank served as a "Gold Partner" of the Mongolian National

Olympic Committee and a key sponsor of the Mongolian "Morin Khuur" Fiddle Ensemble as well as supported the State Academic Theatre of Opera and Ballet for the fifth consecutive year.

We gave added focus to human resource, our most valuable asset, as we welcomed 300 new employees increasing members of Golomt family to 1655. Our policy focused on designing reward system, attractive enough to keep employees in the long run while increasing every member's active engagement and developing their professional skills and expertise. The Bank implemented productivity improvement and employee stock ownership programmes as well as continued successful implementation of private pension fund to provide financial security for employees.

As Mongolia is on the verge of extensive development process, Golomt Bank is committed to contribute to Mongolia's prosperity standing by our customers and providing the broadest and most convenient financial services as were main to be responsible and leading bank.

G.GANBOLD
Chief Executive Officer

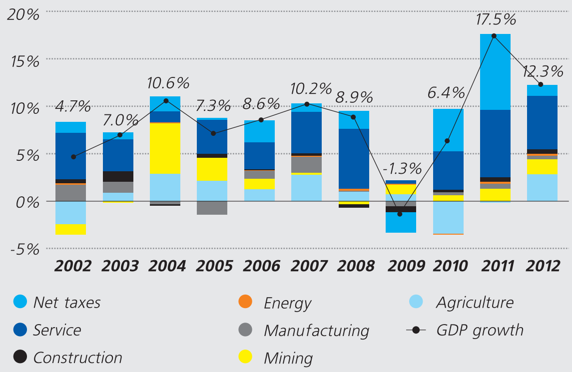
ECONOMIC REVIEW

Mongolia's economic growth slowed in 2012 compared to the previous year due to the weak coal price, but it maintained double digit growth due to policy stimulus and the weather favorable to agriculture.

ECONOMIC GROWTH

Nominal GDP expanded by 25.8 per cent. reach to MNT 13.9 trillion in 2012 from MNT 11.1 trillion in 2011. Real GDP growth has decelerated to 12.3 per cent. in 2012 compared to 17.5 per cent. in 2011. This growth rate was however lower than anticipated as Mongolia saw its coal exports drop significantly due to China's economic slowdown. Moreover real growth rate of net taxes on products dropped to 6.1 per cent. in 2012 from 57.9 per cent. in 2011.

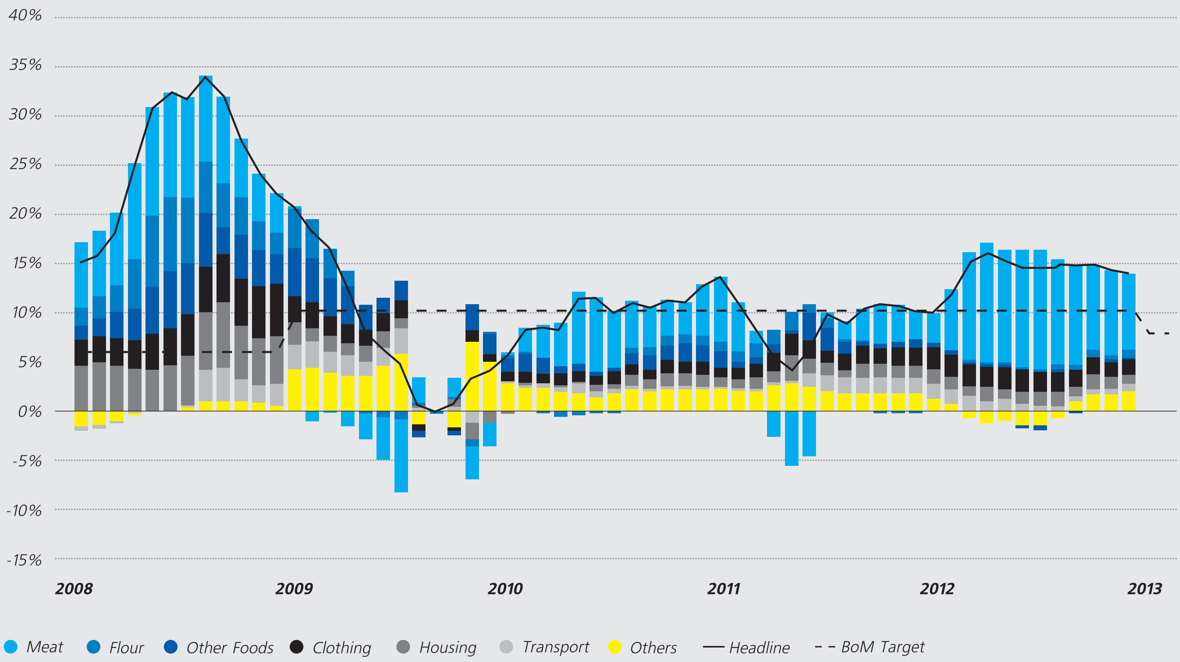
Real GDP growth (%)



INFLATION

CPI inflation accelerated to 14 per cent. in 2012 from 10.2 per cent. in 2011. The components of headline inflation were food products and alcoholic beverages at 17.5 per cent., clothes and textiles at 16.1 per cent., housing at 11 per cent., and educational service at 15.2 per cent.. Food price increase was mainly driven by meat and meat production prices which increased by 43.7 per cent. and fruit price which increased by 21 per cent..

Inflation contribution (%)

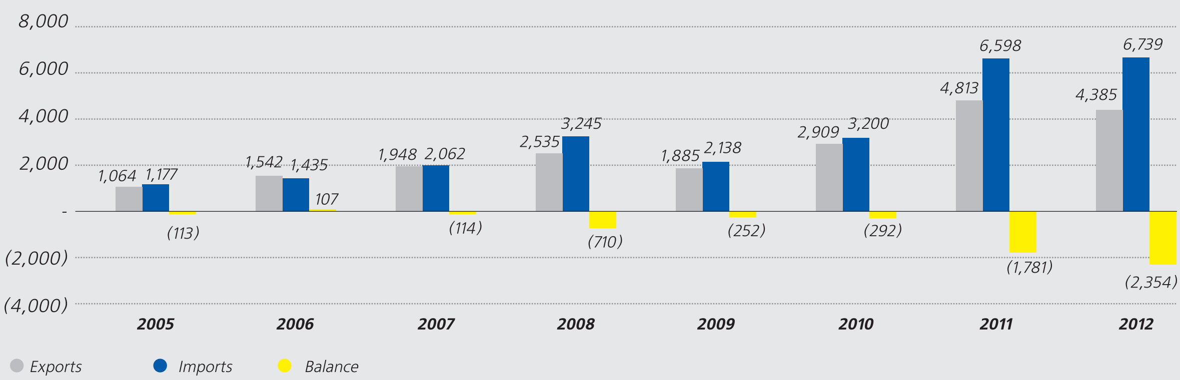


EXTERNAL TRADE

In terms of major destination countries of export, China imported 93 per cent. of total exports from Mongolia, followed by Canada (2.7 per cent.) and Russia (1.8 per cent.). Moreover Mongolia imported 27.6 per cent. of total imports from China, 27.4 per cent. from Russia, and 8 per cent. from USA.

Mineral exports accounted for 89 per cent. of total exports, followed by textiles accounted 5.3 per cent. and precious metals accounted 2.8 per cent.. Mineral exports dropped by 9.1 per cent. to USD 3.9 billion in 2012 from USD 4.3 billion in 2011 due to the decline in coal and copper concentrate exports.

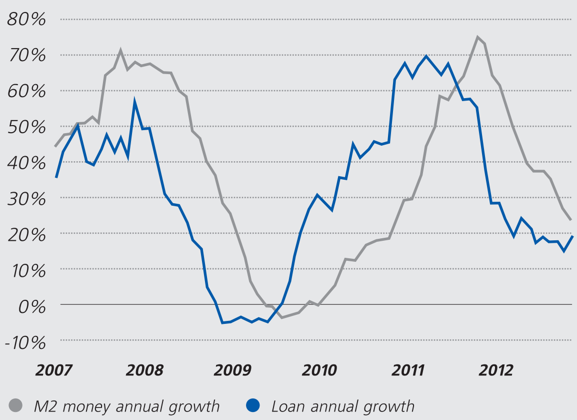
External trade (in USD million)



FINANCIAL MARKET

Money supply has expanded to MNT 7.6 trillion was up by MNT 1.2 trillion compared to the previous year. Annual growth rate of money supply has decelerating to 18.8 per cent. in 2012 from 37 per cent. in 2011 and 62.6 per cent. in 2010. The primary indicator of financial market development, the proportion of money, M2 to GDP, was down to 54.6 per cent. in 2012, from 57.8 per cent. in 2011.

Financial market

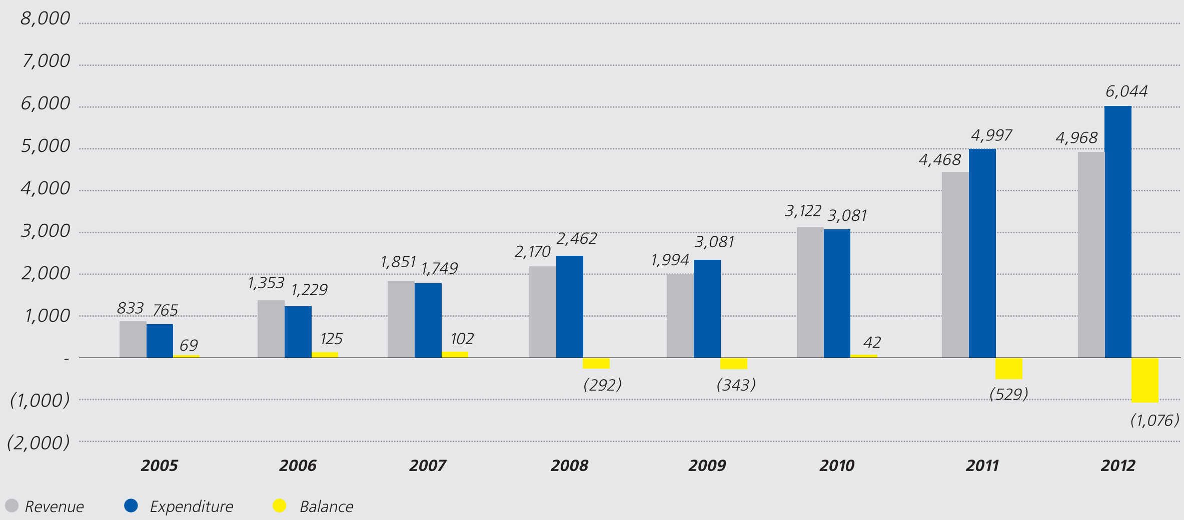


Banking loans outstanding rose by MNT 1.4 trillion to MNT 7 trillion in 2012 from MNT 5.6 trillion in 2011. Moreover annual growth rate has decelerated to 23.9 per cent. in 2012 from 72.8 per cent. in 2011. Non-performing loans ("NPLs") as a percentage of the total loans in the banking system declined to 2.1 per cent. at the end of 2012 compared to the level of 2.9 per cent. at the end of 2011.

GOVERNMENT BUDGET

Total fiscal revenues also achieved the record level of MNT 4,968.3 billion up by 11.2 per cent. year-on-year, while the total expenditure and net lending rose commensurately to MNT 6,043.9 billion up by 20.9 per cent. year-on-year, resulting in a fiscal deficit of MNT 1,075.7 billion equivalent to 7.7 per cent. of GDP.

Government Budget (in MNT billion)



ORGANIZATIONAL DEVELOPMENT

In support of our corporate governance structure, a system of internal checks and balances are placed through the Board and management committees, consistent with best international practices.

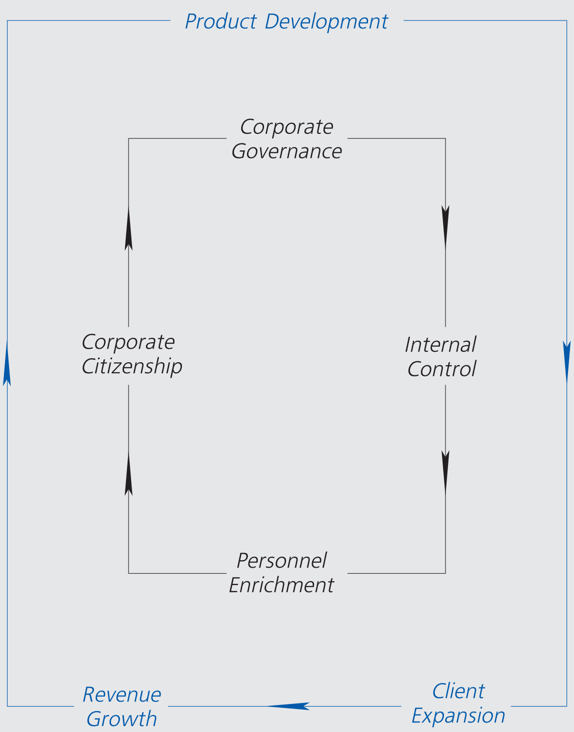
VISION AND MISSION

Vision

Golomt Bank's vision is to be the banking and financial sector leader in Mongolia respected for our professionalism, integrity, ethical and intrinsic strengths while operating at the highest levels of international and best industry standards.

Mission

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

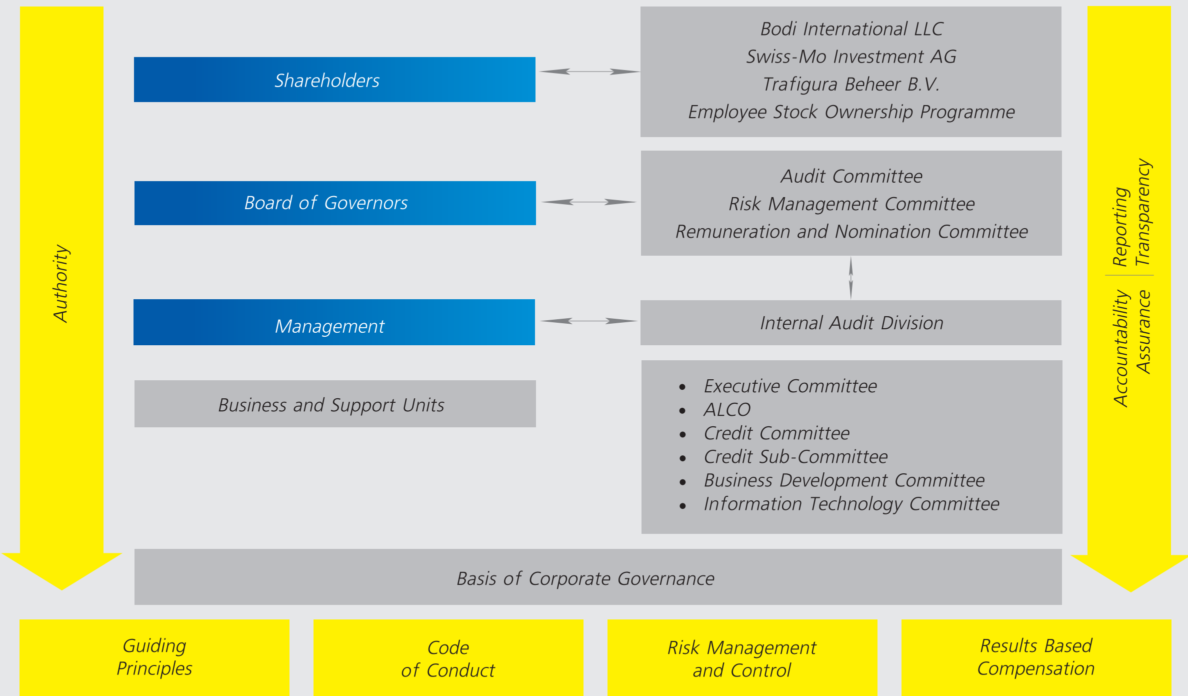


CORPORATE GOVERNANCE

The Bank considers good corporate governance to be essential cornerstone. In support of our corporate governance structure, a system of internal checks and balances are placed through the Board and management committees, consistent with best international practices. Our system of corporate governance maintains key elements for the management to operate free from any undue influence on the part of our majority shareholder, and we appreciate the presence of our independent and non-executive members upon the Board of Governors and its committees. Transparent and timely reports prepared by the management team for the Audit, Risk Management and Remuneration and Nomination Committees enable the Board of Governors to monitor and review the management performance ensuring precise compliance with legislations, regulations and company internal checks.

The Bank has always aspired to the highest standard of sound corporate governance, total transparency and full adherence to International Financial Reporting Standards. Golomt Bank continues to set the highest standards of corporate governance in total compliance with the requirements of both the Banking Law 2010 and best international practice. The structure of the committees formed under the Board of Governors has advanced progressively through contribution by the current and new members of the Board of Governors.

Corporate Governance Structure



SHAREHOLDERS

	31/12/2011	31/12/2012
Bodi International LLC	*89.19%*	*84.66%*
Swiss-Mo Investment AG	*10.7%*	*10.16%*
Trafigura Beheer B.V.	-	*5.02%*
ESOP	*0.10%*	*0.16%*
Total	***100%***	***100%***

Bodi International LLC

Bodi Group, whose holding company is Bodi International LLC, is one of the leading business groups of Mongolia with over 2700 employees and actively engaged in banking & finance sector, property development, agriculture, trade & services. Bodi Group has progressively expanded it's business carrying out a broad range of business activities and with efforts of its skilled and experienced management team and employees has continually contributed to the social and economic development of Mongolia.

Swiss-MO Investment AG

Swiss-MO Investment AG is an investment firm operating globally in the field of the acquisition, management and sale of shares in enterprises of all kinds, as well as offering services and consulting in terms of investments. It is registered in the Canton of Grisons in Switzerland and its primary shareholder is a renown Swiss financier, entrepreneur, and the Honorary Consul of Mongolia in Switzerland, Mr. Urs E.Schwarzenbach.

Trafigura Beheer B.V.

Established in 1993 as a privately held company, Trafigura is the world's third largest oil trader and the second largest independent trader in the non-ferrous concentrates market. The company engages in the sourcing and trading of key raw materials and commodities including crude oil, petroleum products, renewable energies, metals, metal ores, coal, and delivers to industrial consumers worldwide.

Employee Stock Ownership Programme

A generous ESOP was introduced in 2011 to better align the long-term interests and benefits of our valued employees with those of the Bank and its stakeholders. By the year-end 2012 we welcomed 44 of our long-standing employees as new shareholders of the Bank with a combined holding of shares equivalent to 0.16 per cent. of the equity.

BOARD OF GOVERNORS

The Board of Governors oversees and advises the Management team on a quarterly basis. It carries out the appointment of the Management team, and together with the Management team, sets Golomt Bank's mid to long-term business strategy. Major decision making which has significant impact on the Bank requires the Board of Governors approval. In its effort to advance corporate governance and improve the reporting efficiencies, the Committees were set up to operate under the guidance of the Board of Governors.

The Board of Governors consists of seven members with extensive experience in banking, finance, and business. The Board composition was reorganized and expanded with new members, namely Mrs.Munkhtsetseg, Mr.Temuun, and Mr.Munkhtur.

Audit Committee

The Audit Committee is appointed by the Board of Governors and reports directly to the Board in order to review the Bank's financial position and to make recommendations on all financial matters including assessing the integrity and effectiveness of accounting methods, compliance and other control systems. In accordance with the provisions of the Banking Act 2010 the Audit Committee exercises independent oversight and control over the Internal Audit Division of the Bank and management of the relationship with the external auditors.

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

Risk Management Committee

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is appointed by the Board of Governors to recommend and propose the Board candidates for selection, appointment and dismissal of Board Members and Executive Management of the Bank, and determine their remuneration and compensation packages. The Remuneration and Nomination Committee is comprised of three non-executive members, including an Independent Director, and aims for well-defined selection criteria and remuneration policies of the Executive Management of the Bank, in return reviewing their performances and advising the Board accordingly.

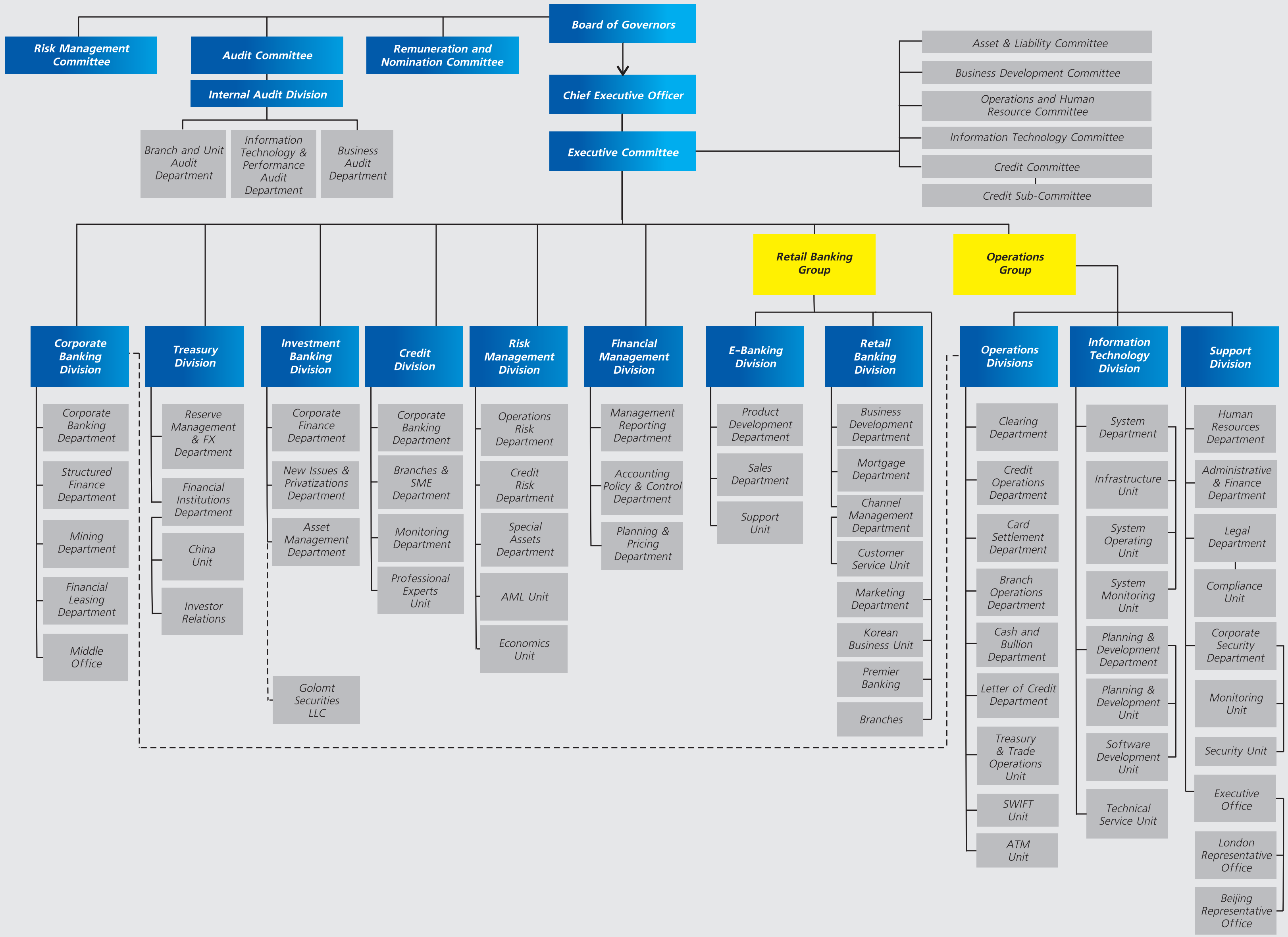
ORGANIZATION STRUCTURE

As part of ongoing process of improving our organization structure, reflecting its fundamental objective of remaining customer-centric organization and expanding business volume in growing competitive environment, the Bank introduced the following important structural enhancement during the reporting year:

- established a new E-Banking Division within the Retail Banking Group, combining the Card Management Center and E-Banking Department of Retail Banking Division in order to have better focus on the Bank's strategic goal to continue our dominance of leader in eBanking service in Mongolia;
- upgraded the Project Finance Department of Corporate Banking Division as the Structured Finance Department in order to further strengthen the structured financing services through close cooperation with our valued international partners;
- renewed the Customer Service Unit of Retail Banking Division in order to reinforce the quality service with contact center facility and advance customer service in every level of the Bank's service;
- upgraded the former Information Technology Division by expanding and renewing divisional structure: Planning and Development Department, System Department and Technical Service Unit;
- promoted the Security Unit of Operations Division to departmental status, consisting of two units: Monitoring and Security unit.

The Bank established a new Information Technology Committee, responsible to review the information technology strategy, policy and procedure and consider IT infrastructure, investments, system development and IT security issues further facilitating the Bank's business by ensuring the highest possible levels of security as well as maintaining the Bank's information security risks in an acceptable level.

Organization Structure



MANAGEMENT TEAM

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

1	2	3	4		
	5	6	7	8	
		9	10	11	12

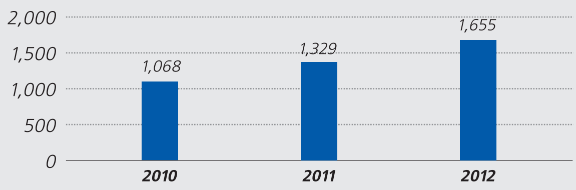
1. D.Munkhtur *Executive Vice President & Chief Operating Officer*
2. M.Chimegmunkh *Vice President & Director of Financial Management Division*
3. B.Zagal *Vice President & Director of Investment Banking Division*
4. L.Oyun-Erdene *Vice President & Director of Corporate Banking Division*
5. B.Enkhtuya *Vice President & Director of Retail Banking Division*
6. M.Chingun *Vice President & Director of Risk Management Division*
7. B.Munkhbaatar *Director of Treasury Division*
8. R.Batsuren *Director of Internal Audit Division*
9. Yo.Purevbat *Director of Operations Division*
10. T.Nyamsuren *Director of Credit Division*
11. N.Tserendavaa *Director of Information Technology Division*
12. Z.Khaidar *Director of E-Banking Division*

HUMAN RESOURCES

The Bank's success is solely dependent upon our highly professional, motivated and committed employees. The performance and dedication of our employees enabled us to make 2012 a successful business year once again. Over the course of 2012, the Bank's Human Resource has achieved progress in areas of strategic workforce and career development planning with empowered recruitment and training programmes while attracting great talents and effectively managing them.

The Bank's Human Resource policy focused on creating a remuneration system that promotes the long-term consistent employment of workforce while increasing every member's active engagement in the Bank's business and developing professional skills and expertise.

Number of Employees



At the end of the year the Bank has 1,655 employees, of which 67 per cent. serve in front line delivery positions throughout our branch offices. The other 33 per cent. are assigned to the Head Office and support functions. During the year, the Bank successfully implemented "Success starts with the Right Job!" recruitment campaign for the 4th time and thanks to the campaign the Bank welcomed more than 300 new employees as members of our family. This increase in workforce number especially enabled us to expand our business volume through newly opened branch offices.

Human Resource Indicators

	2011	2012
Number of employees	***1,329***	***1,655***
Branch offices	809	1,113
Head office	520	542
Gender Ratio (Male/Female)	***30/70***	***32/68***
Branch offices	25/75	23/77
Head office	32/68	46/54
Middle management	46/54	49/51
Senior management	75/25	71/29
Average age of employees	***26.9***	***28.8***
Professional Qualifications		
Vocational training	10%	9.4%
Bachelors /Mongolian Universities/	73.4%	73%
Masters /Mongolian Universities/	11.5%	9.8%
Bachelors /International Universities/	3.6%	4.4%
Masters /International Universities/	1.5%	3.4%

Compensation and Reward System

A carefully designed reward system can greatly enhance an organization's effectiveness by motivating employees thereby boosting productivity. Therefore, the Bank improved the total compensation package for employees and implemented several unique compensation initiatives including strategic salary system in order to control labor costs efficiently, improve workforce productivity, and retain the talented employees; thus, optimize the quality of service.

- Employee Stock Ownership Programme: The Bank has an innovative Employee Stock Ownership Programme whereby long serving employees enjoy the benefit of options to acquire shares in the Bank. At the end of 2012, 507 employees had received Option certificates and 44 employees had availed themselves of the option to become Shareholders;

- First Pension Fund: As an incentive to motivate long serving employees and provide financial security for our employees after retirement, the Bank has established the first Private Pension Fund in Mongolia. Since its establishment in 2010, the number of First Pension Fund members has reached to 964 employees and investment in the First Pension Fund by the Bank increased by MNT 376 million;

Compensation and Remuneration Policy

The Bank has successfully implemented a remuneration system based on a new job grade system. All of the staffs are rated into six job grades depending on the job title, employee's productivity, work experience, skills and educational qualifications. The assigned grade is basis of the employee's compensation and benefit package, career planning, training and development policy.

Training and Development

Our extensive range of training and continuing educational programmes support the professional expertise of our employees, improving their qualifications and performance.

Training Indicators

	2011		2012	
Training expense /MNT/		*315,800,659*		*397,845,108*
Training statistics	*Training participants*	*Training hours*	*Training participants*	*Training hours*
Overseas training	*34*	*1,512*	*28*	*1,372*
Internal training	*2,573*	*30,392*	*2,555*	*47,627*
External training	*624*	*8,632*	*750*	*11,231*
Total	***3,231***	***40,536***	***3,333***	***60,230***

The Bank implemented following initiatives as part of our training programme:

- organized "Certified Manager Programme" to identify and develop future leaders and hone leadership skills of the Bank's higher level managers;
- implemented HR rotation policy successfully to increase the number of well-rounded and qualified employees;
- continued ongoing career development and professional training programmes for branch and relationship managers, supervisory accountants and senior operational officers;
- continued the strategic focus to augment the professional expertise of our valued employees by actively supporting exposures to international training programmes. During the year, our employees attended around 30 overseas training programmes across 12 countries including India, Germany, Singapore, Hong Kong and Great Britain;
- implemented a language learning program entitled "English is an opportunity not an obstacle" to increase the number of employees who're able to perform in international environment;
- upgraded its long standing productivity improvement programme "Kaizen", to create innovative environment where employee's new ideas and suggestions are applauded. At the end of the year, 380 ideas from over 100 employees were selected as "Kaizen" suggestion and 8 quality circle team, elected from employees, worked actively to bring those suggestions into practice;
- launched a "New Ideas" forum among employees, involved in overseas trainings and internship programmes. The Forum aims to share new knowledge and refreshed experience from the international environment and generated new ideas to reflect in the Bank's business, subsequently promoting active participation among employees in the application of newly-learned innovation. Over 40 employees attended to the forum and shared their obtained knowledge and international experiences.

INFRASTRUCTURE

As result of the Bank's business expansion, the Bank continues to be committed to an extensive IT programme, and related capital expenditure, IT security issues and innovative products and services based on information technology in order to sustain our market leadership position and to provide optimum service standards to our valued client base at the lowest possible cost. Key initiatives undertaken and concluded during 2012 included:

- developed IT Security Policy documents guided by the ISO 27001 standard;
- engaged Deloitte & Touche Enterprise Risk Services to conduct a comprehensive pan-bank IT security review;
- updated 24/7 monitoring system, security system, moved the Bank's backup center away from earthquake zone and established latest online data center, while creating integrated control infrastructure expansion level-by-level and equipment renovations;
- strengthened IT system for investment banking, securities investment, brokerage, international trade, and accounting as well as enhanced IT control and security across all system architecture;
- started to implement a new Card Management System and successfully accomplished a vendor selection process for a new Core Banking platform;
- upgraded the internet banking services and expanded its functions for both of retail and corporate;
- introduced "Smart Banking apps" for smart phones such as Android, iPhone and Blackberry for the first time in Mongolia;
- launched the Self Service Banking with Cash Deposit machines, ATMs and other equipments for the first time in Mongolia while upgrading its ATM management system in cooperating with BPC Banking Technologies, the leading provider of Open System e-payment solutions for the global financial industry;
- upgraded an internal telephone system by Cisco Unified IP phone system and installed Cisco video conferencing system in order to improve the productivity of meetings and enhance the end-user experience;
- installed brand new "state-of-the-art" software and server system for Call Center;
- introduced Complex Cash Management system to count, analyze, sort and bundle excessive amount of cash plus clearing banking system to communicate and cooperate with brokerage dealer and Mongolian Stock Exchange;
- established a new Information Technology committee headed by COO to review and monitor IT security issues.

BUSINESS REVIEW

In 2012, retaining our leadership position in the corporate banking market, the Bank managed to enhance its correspondent banking relationships with international renowned banks while paying special focus on retail banking business, mainly e-banking service.

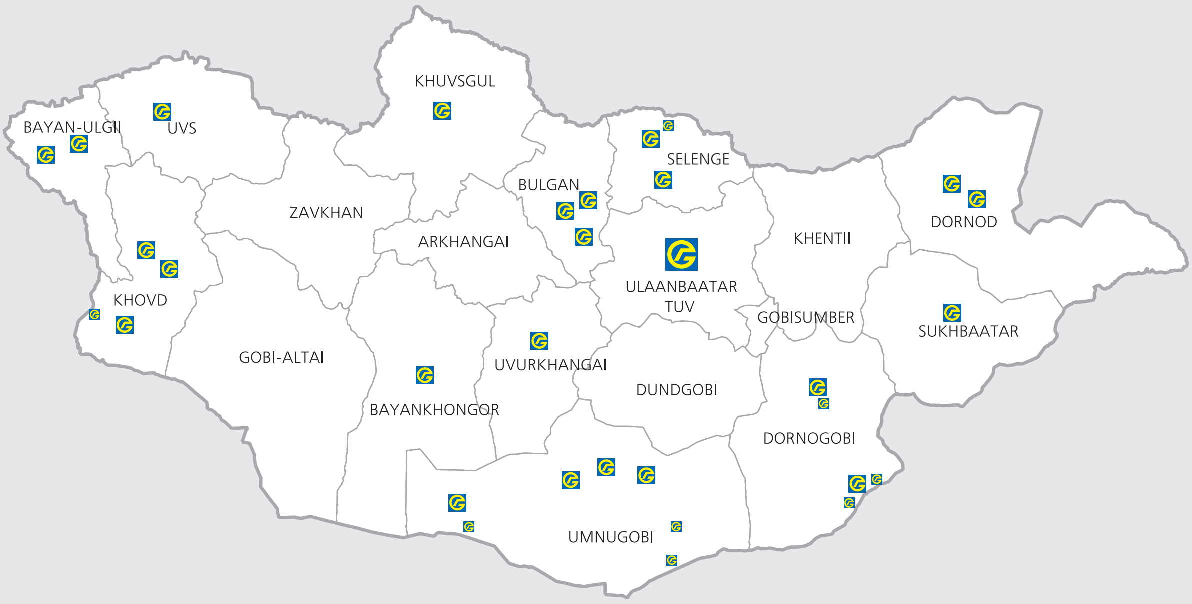
RETAIL BANKING

Our main goal of retail banking business is to offer a full range of banking and financial services with the highest level of service excellence to both SMEs and individuals, especially targeting middle-income people, which are rapidly growing at the same pace with the Mongolian economy, while aiming to contribute significantly to the development of SMEs.

Expansion of branch network and e-channels

With the strategy of progressively expanding the branch network into areas with high population density and solid prospects for sustained growth at the heart of Mongolia's future economic development, the Bank has continued to grow our physical branch network by opening 12 new branches of which 8 are located in Ulaanbaatar and 4 offices in rural areas, including Uvs and Bayankhongor aimags (provinces) as part of our focus to the western part of Mongolia. As of 2012, total number of branch offices has reached to 92.

Providing convenience and access to our products and services while making it easier for customers to do business with us is a cornerstone of the Bank's success. This is a value and commitment that has prompted us to launch a fully automatic Self Service Banking for the first time in Mongolia by introducing brand new cash deposit machines. In 2012, the number of Self Service Banking unit reached to 3 in the capital city. Thanks to this initiative, retail customers were enabled to deposit their money in more convenient way and perform transactions more efficiently by preventing from cash related defaults. In 2012, the Bank has increased the number of ATM network across the country by 36 per cent. reaching to 165.



We continue to pioneer and make banking easier and more convenient for our customers, with enhanced and innovative services. The Bank has significantly expanded e-banking service functions and eBanking channels to maintain 24/7 x 365 days availability. We have initiated a "Smart Banking Service", which is the mobile banking application for iPhone, Blackberry and Android devices, for the first time in Mongolia keeping its pioneering role in introducing the most advanced banking technology to the market. Within 6 months of its launch, "Smart Banking service" statistic showed that 12 per cent. of total smart phone users in Mongolia downloaded and are running the application actively by the end of year 2012. The result shows that "Smart Banking Service" has fully met with customer demand, attracting with its economical and efficient features. Golomt Bank's smart phone application has been recorded as the "First Mongolian Banking Application" in App Store, Play Store and Blackberry world while consistently leading the chart as number one financial application of Mongolia. With this result, the Bank has been rewarded with the "Best Internet Bank Award" from the Global Finance Magazine and the "People's Choice of Products and Services" award from the Mongolian National Chamber of Commerce and Industry.

Continuous innovation in our products and services has always been our focus. In 2012, the Bank upgraded its internet banking services and expanded its functions matching both individuals and corporations demands, especially concentrating on the internet banking security and controlling issues. Furthermore, the Bank launched a new direct debit service, allowing customers to perform transactions at the most convenient time from their preferred accounts. Our constant improvements of internet banking service along with rapid development in information and communication sector results in improved knowledge and wide spread involvement of customers in this industry enabling the Bank to reduce cash related transaction costs significantly.

We are proud to have gained such a huge number of clients' confidences as a result of these service enhancements. During the course of the year number of e-banking clients and transactions increased dramatically:

- Growth in number of active internet banking clients 281 per cent.;
- Average growth in number of other e-banking service clients (Mobile banking service, SMS banking service, SMS notification service, Online account opening service) 270 per cent.;

- Growth in number of Smart Phone application users after its launch in Jun 2012 more than 25000, (12 per cent. of total users with Smart Phones in Mongolia);
- Growth in transaction volumes and value through internet banking service;
  - Intrabank transaction (volume by 330 per cent., value by 105 per cent.);
  - Interbank transaction (volume by 238 per cent., value by 87 per cent.);
  - International payment transaction (volume by 229 per cent., value by 114 per cent.).

In 2012, the Bank succeeded to implement several projects as we managed to prove our dominance in smart card market of Mongolia. For instance:

- placed "National ₮ brand card" on the market supporting the Project implemented by the National Payment Committee to introduce nationally accepted Mongolian currency card;
- fully renovated ATM management system in conjunction with PBC, the Russian leading company specialized in ATM and billing systems;
- successfully started the project to upgrade the payment card system in cooperation with the long standing partner, SunGard systems;
- launched a new web portal which has full range of information about Golomt Bank's card merchants and their services;
- supported the initiation of the Mongolian Government to distribute "Student's Grant" and "Child Benefit".

In 2012, we saw significant growths in our indications, as detailed below. The number of credit card holders increased by 41 per cent., international payment card holders increased by 45 per cent., number of transactions made by POS terminals and ATMs increased by 50 per cent. and number of card transactions increased by 60 per cent. respectively. Total number of merchants reached to 1700 and internet merchants to 300.

We are committed to maintain close relationship with our customers and respond immediately in time of need. As part of our objective, we enhanced Contact Center to be the key channel to interact with our valued customers and in 2012, the Bank upgraded the Contact Center system network and application in cooperation with CISCO systems.

SME banking service

Rapidly expanding SME sector is a critical constituent of the economic and social development of Mongolia. SMEs are crucial component that foster the economic development by increasing household income for individuals with middle and less income, creating jobs on the market; thus, affecting positively for the improved living standards of general population.

The Bank's strategy is to broaden the range, scope and volume of our SME business; by actively participating in wide variety of project loan programmes which are being implemented by Government agencies and international organizations. For instance:

- signed on tripartite contract between Golomt Bank, SME Fund and Development Bank of Mongolia to finance SME Project loans;
- continued the implementation of "Two Step Loan Project for SME Development and Environmental Protection" in cooperation with Japan International Cooperation Agency and Ministry of Finance;
- successfully implemented the Project Loan Programme for "Cashmere and Wool" industry in cooperation with SME Fund and Ministry of Finance;
- successfully participated the "Project Loan Programme to support private sector and industry" financed by KfW bank of Germany in cooperation with Bank of Mongolia, the central bank;
- successfully continued "Employee Generation Project Loans" in cooperating with Asian Development Bank;

In order to provide a warm and satisfying banking experience for SME clients, the Bank established 3 dedicated "Business Centers" in Ulaanbaatar developing a new hub-branch business model while continuing our comprehensive training, consulting and business incubator services specifically designed for SME clients.

Mortgage finance

The purpose of the Mortgage loan is to protect the environment by housing, and aim to give the middle class, specially young family an opportunity to possess property. In cooperation with domestic top 20 construction companies, the Bank enables the customers to purchase apartment under flexible conditions.

The total outstanding mortgage loan has increased by 28 per cent. reaching MNT 239.6 billion from MNT 187.1 billion compared to the same period of the previous fiscal year. The Bank occupies 29 per cent. of the total mortgage outstanding loan portfolio of the banking sector. During the fiscal year, the number of the mortgage loan borrower has reached 7,619 which has increased by 20 per cent..

The Bank has been actively involved to promote the secondary mortgage market development in Mongolia, and has sold MNT 2 billion mortgage pools to the Mongolian Mortgage Corporation.

The Bank offers the mortgage loan on easy terms to the key employees of the valuable clients and supports them by encouraging its employees to maintain the long term stable employment.

Consumer loan

The average household income has been increasing as a result of the rapid growth of the economy sectors. The purchasing power of the middle class has improved, and it can be seen from that demand of automobile, consumer goods, electronics and education service. In order to fulfill the customer's increasing demand, the Bank offers the consumer loan product within the rational norms of its capacity while refining and making improvements permanently. During the fiscal year, the consumer loan has increased by MNT 1.89 billion, reaching MNT 126.15 billion.

FINANCIAL INSTITUTIONS AND TRADE FINANCE

Golomt Bank enjoys wide range of correspondent banking relationship with leading international banks and financial institutions. We continue to further expansion of our partnerships in order to meet the needs and requirements of our valued customers. In 2012 we expanded our collaboration with multiple commercial and investment banking institutions including Deutsche Bank AG, Standard Chartered Bank NY, Standard Bank, Export Import Bank of ROC /Taiwan/ and Atlantic Forfaiterungs AG, Switzerland. We support diversified international settlements in 11 currencies through our set correspondent relations with over 30 banks located in 15 different countries.

Supported by our strong correspondent banking relations, we offer comprehensive, professional trade financing solutions to match individual client needs including Standby Letters of Credit, Letters of Credit/ Post Finance, Guarantee and Documentary Collection.

Currently we provide services of Letters of Credit/Post finance and import loans through our partners over 20 international institutions including ING Bank, Baoshang, Industrial Commercial Bank of China, Agricultural Bank of China, Bank of China, Taiwan Exim, BHF, Deutsche Bank, Commerzbank, Atlantic Forfaiterungs AG and Export Import Bank of Korea /KEXIM/.

A syndicated loan facility for long term projects was conducted in partnership with the China Development Bank and financing opportunities for big projects; particularly in mining sectors were initiated in collaboration with Standard Bank. Similarly, a new long term and low interest rate financing facility was introduced together with the Export Import Bank of Korea /KEXIM/ specifically tailored to our clients directly trading goods with Korean counterparts. This loan facility is open for Mongolian companies who imports goods from Korea.

Main Trade Finance Partners

Standard Bank, London

Commerzbank AG, Frankfurt am Main

ING Bank N.V., Amsterdam

Deutsche Bank AG, Frankfurt am Main

Atlantic Forfaiterungs AG, Zurich Switzerland

Asian Development Bank, Manila

Industrial & Commercial Bank of China

Baoshang Bank, China

The Export-Import Bank of the ROC, Taiwan

BHF-Bank AG, Frankfurt am Main

The Export-Import Bank of Korea, Seoul

Nordea Bank Finland PLC, Helsinki

Kuveyt Turk Katilim Bankasi A.S., Istanbul

BNP Paribas, Switzerland

Daegu bank, Korea

Kazkommertsbank, Kazakhstan

CORPORATE BANKING

Corporate Banking Division had another successful year of 2012 that tied the close mutually beneficial relationships with market leading corporates, foreign and domestic governmental and non-governmental organizations, embassies, diplomatic representative offices, international development agencies, and project developers in Mongolia. In today's fast paced market, we provide complex and flexible banking services such as settlement services, loans, trade finances, co-financings, structured financings, project finances, financial leasings, and operating banking services to meet increasing demands of our clients through our highly trained team and our dedicated Business Development Managers and receive the profound appreciation from our clients.

Within the framework of Cooperation Agreements established with BHF Bank and Commerzbank of Germany under the leading Export Credit Agencies (ECA) to offer long-term export credit financing, we sat prosperous and financially friendly environment by issuing lower priced credits to top domestic industries and national developers who are acquiring equipments and bringing technology advancement from European Union and OECD member countries organizations. In addition, we opened new investment flow of opportunities for our valued clients by collaborating with Taiwan Exim Bank and Atlantic Forfaiterungs AG on export financing facility with most favorable condition.

We cooperate with numerous international suppliers of equipments and heavy machineries known by its performance and quality, and deliver complex financial leasing products to support their business growth. While having mutually beneficial relationship with these companies, we organize events, training sessions, participate in forums and conferences held both domestically and internationally.

Banking Service for Mining

Since our Mining Department of Golomt Bank has been established, it has delivered the widest range of banking and financial services to great mining companies of Mongolia as well as their contractors. As Golomt Bank is one of the top banks that delivers banking service for Corporate, with our highly trained and dedicated staff members and growing range of international affiliations, the Bank stands ready to assist all parties involved in that process with the most efficient and adequate delivery of the widest range of banking and financial services to mining companies and its subordinates depending on their features via this department.

Thus, the Bank has a mutually beneficial close ties with foreign and domestic mining investors, bank and financial institutions as we collectively research necessary investments for mining project implementers and enterprises from foreign and domestic market while mediating investors and supporting their further cooperations.

INVESTMENT BANKING

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

Our vision is to fuel the profitable growth of every client by providing the highest quality investment banking services and in doing so create an environment that leads to long term, mutually rewarding relationships. We strive to achieve these lasting relationships by matching each client assignment with the collaborative expertise of Golomt Bank's team of seasoned professionals.

Our Investment Banking Division team is progressively building upon its expertise and competencies with a view to offering the full range of investment banking services within Mongolia entailing:

- structuring debt, equity and equity related instruments, refinancing existing debt, working capital and mezzanine finance;
- horizontal and vertical expansion into new markets, and organic growth within a company's existing business profile and footprint;
- identifying and sourcing prospective investors;
- negotiating financing terms with investors;
- facilitating due diligence processes;
- preparing and presenting offering memoranda and prospectuses;
- facilitating the creation and development of joint ventures;
- drafting and executing documentation;
- providing corporate valuations.

Over the years the Bank has developed mutually close relationships with many financing sources and maintains active relationships with diverse overseas institutional investors including major private equity institutions, venture capital funds, regional and money-center, commercial banks, insurance companies and sovereign wealth funds; in addition to our long-standing relationships with our valued financial partners.

These relationships give the Bank unrivalled access to international placing power and capital ranging from equity and equity linked instruments to subordinated debt and bridge financing. Our knowledge of their investment criteria and processes enables us to expeditiously present multiple financing options and structure flexible financial packages consistent with market conditions, and optimized to our client's objectives as relating to amount, tenor, conditionality and all-in-cost.

In year 2012, the Mongolian Stock Exchange (MSE) introduced Millennium IT system and as part of this initiative, Golomt Bank was selected as one of the clearing banks in Mongolia and Investment Banking Division in cooperation with other divisions of the bank has made considerable progress in the development of capital markets.

The Bank has been granted a securities underwriting license under its own name while complying with the domestic financial regulations which require the segregation of certain investment activities, we have established our first wholly-owned subsidiary, Golomt Securities LLC, in order to provide dedicated brokerage services to our clients active in both domestic and international major securities markets. Likewise we are working on custodian banking project in relation to developing the capital market.

Golomt Securities LLC

Golomt Securities LLC, the wholly owned brokerage subsidiary of Golomt Bank, offer comprehensive investment solutions to our valued clients since its establishment in 2011. We have expanded the number of international markets as well as our customer base internationally and domestically by providing the following services:

- Securities brokerage services on Mongolian Stock Exchange;
- International securities brokerage on NYSE, ASX, HKEx, TSX and NASDAQ;
- Comprehensive research reports on securities, commodities and prevailing macro economic developments;
- Private equity investment advisory.

Golomt Securities LLC, along with Golomt Bank, contributed significantly to the government initiative to develop Mongolian Stock Exchange through Master Management Agreement signed between MSE and London Stock Exchange in implementing Millennium IT System, a platform providing trading, clearing and settlement and custody functions.

TREASURY

Treasury division manages bank's liquidity, cash position on a daily basis and provides management with daily reports on our liquidity. The primary objective of the treasury operation is to efficiently manage our excess liquidity, market risk, and reduce funding cost.

Placements of surplus cash in selected securities, combined with repurchase and reverse repurchase transactions, and foreign currency deposits with leading international correspondent banks are conducted in respect to the counterparty and country exposure limits set by the Risk Management Committee. Our portfolio is comprised of 18.06 per cent. of the government bill and 32.81 per cent. of the Central bank bill issued in 2012.

As part of our contribution to the development of government bond market, we played key role in the government bond market through Bank of Mongolia and the development of the auction procedures.

Foreign Exchange

Tugrik value fluctuated against the US dollar with coefficient of variation of 2.4 per cent. for entire 2012. However, the magnitude of movements has been very different in the first and second half of the year; coefficient of variation of 2.2 per cent. in the first half of year and coefficient of variation of 1.5 per cent. in the second half. A smaller fluctuation resembles that the overall market confidence in Tugrik held steady despite the uncertainties related to political and international financial markets. The Foreign Direct Investment in 2012 surpassed that of 2011 and the total foreign reserve reached USD 4.2 billion for the very first time.

As a leading market maker in the foreign currency exchange market, we continued our currency exchange operation in broadening the forward and swap markets through actively providing care and quotes to our valued importers, exporters and investment clients. As an advocate to forward and swap market development, we participated actively in a seminar and Fifth Foreign Currency Exchange forum by The Bank of Mongolia to clients in detailing the process and demonstrating the benefits of FX risk hedging.

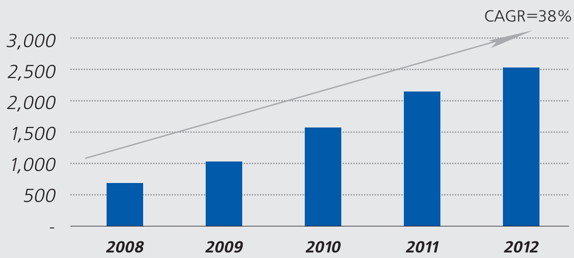
FINANCIAL REVIEW

The Bank committed to put the interest of our customers first, by paying attention to liquidity; particularly in an uncertain economic situation.

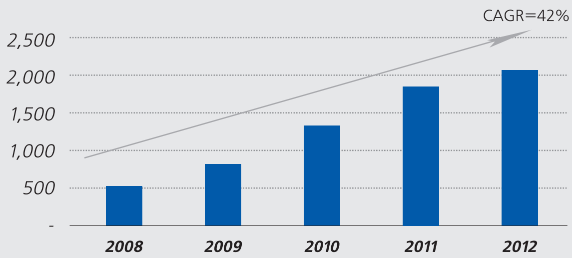
The economy, in general has been sluggish and it has influenced negatively on the growth of entire banking system in Mongolia. However, the Bank has overcome the economic climate difficulties and has maintained our market share within the banking system with strong financial indicators.

The Bank committed to put the interest of our customers first, by paying attention to liquidity; particularly in an uncertain economic situation.

Total Assets (MNT billion)



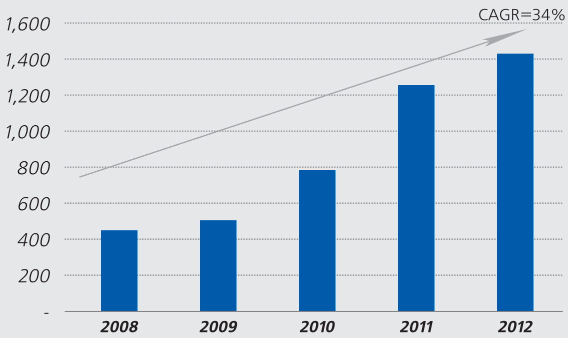
Deposits (MNT billion)



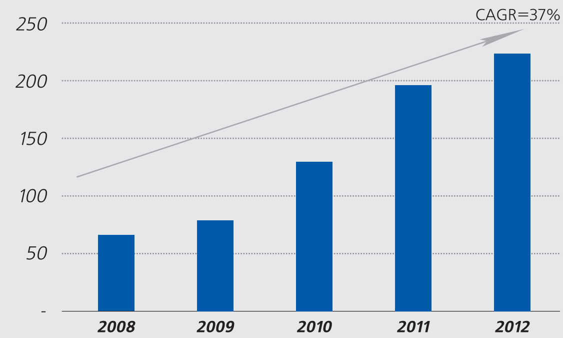
- Total assets increased by MNT 392.8 billion or 18 per cent. to reach MNT 2.53 trillion (USD 1.82 billion) which constituted 21.1 per cent. of the assets of the banking system.
- Customer deposits increased by MNT 217.3 billion or 12 per cent. to reach MNT 2.06 trillion (USD 1.48 billion) which constituted 26 per cent. of the total deposits in the banking system while remaining as one of the largest banks in terms of total customer deposits.

- Net loans grew by MNT 178.6 billion or 14 per cent. to reach MNT 1.43 trillion (USD 1.03 billion) which 20.6 per cent. of the banking system. As the Bank has been aiming to reduce the loan concentration, we have managed to decrease the share of corporate loan to 53 per cent. from 57 per cent..
- Tier I capital grew by MNT 48.2 billion reaching MNT 187.3 billion, following MNT 21 billion /USD 15.9 million/ equity injection by Trafigura Beheer B.V. and further increased by net profit of MNT 26.6 billion. Tier II capital reached MNT 34.7 billion, total capital reached MNT 222.1 billion /USD 159.6 million/.

Net Loans (MNT billion)

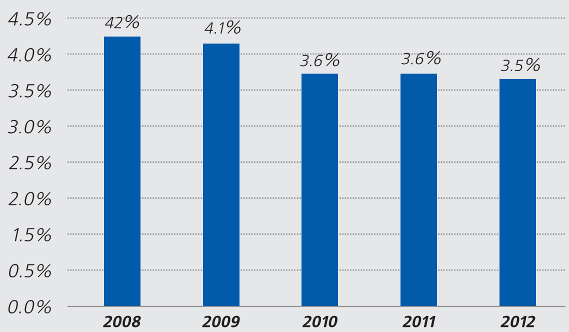


Capital (MNT billion)

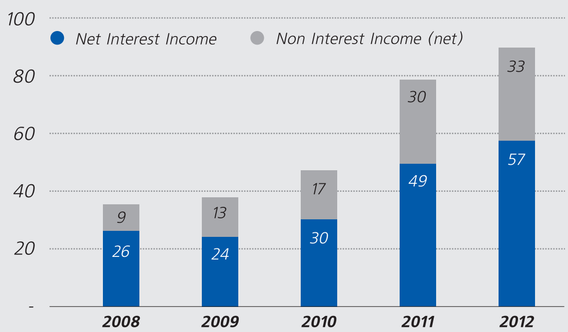


- Net Profit reached MNT 26.6 billion (USD 19.1 million).
- Operating income increased by MNT 11.5 billion (15 per cent.) to reach MNT 89.9 billion.
- Net interest income soared by MNT 8.2 billion (17 per cent.) to reach MNT 57.1 billion and Net Interest Margin remained 3.5 per cent..

Net Interest Margin (%)

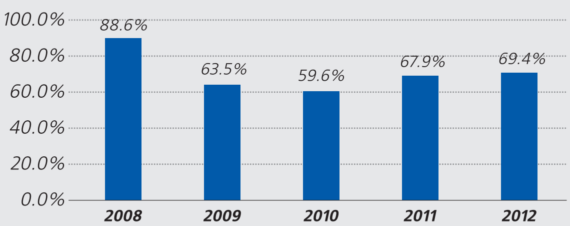


Operating Income (MNT billion)

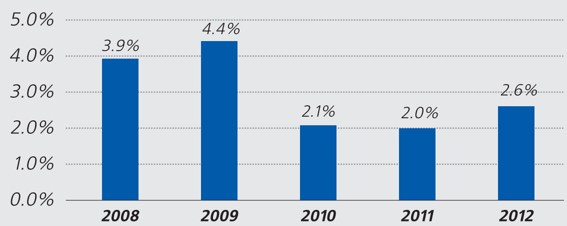


- Consequently, our balance sheet ratios remained robust with Loans to Deposits ratio remained at 69.4 per cent. and it is lower than the average ratio of the banking system 87.8 per cent..

Net Loans to Deposits Ratio (%)

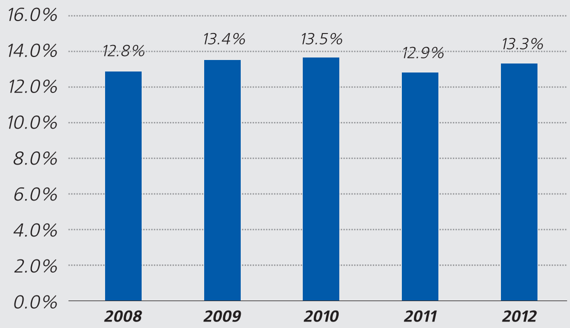


NPL Ratio (%)

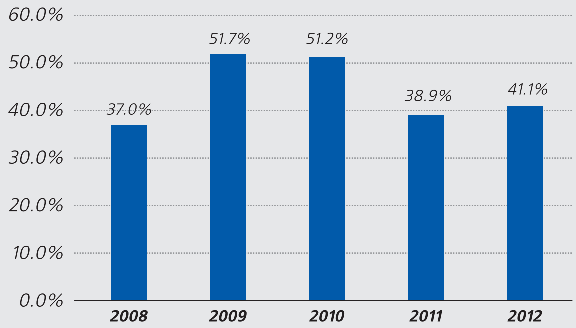


- Capital to Risk Weighted Assets Ratio was 13.3 per cent. higher than the minimum level of 13 per cent. stipulated by the Bank of Mongolia, our central bank.
- Liquidity ratio reached 41.1 per cent.. This was the highest rate within the domestic banking sector.

Capital Adequacy Ratio (%)



Liquidity Ratio (%)



- Continued strongest financial structure in the banking system:
  - Capital adequacy ratio 13.3%;
  - The highest Liquidity ratio 41.1%;
  - The lowest Loans to Deposits ratio 69.4%;
  - The robust Net interest margin 3.5%;

Financial Rating

Standard and Poor's assigned rating of 'B+' long term and 'B' short-term counterparty credit ratings. This affirms our strength of good market position in the domestic banking industry with diversified funding solutions where we manage about a quarter of the sector's total assets.

Moody's Investor's Services assigned a bank financial strength rating (BFSR) of E+, which maps to a standalone rating of B1 on the long-term scale. Our ratings for foreign currency bank deposit is B2, domestic currency bank deposit is B1 with Stable outlook.

B1 Moody's Outlook: **STABLE**

B+/B STANDARD &POOR'S Outlook: **STABLE**

FIVE YEAR FINANCIAL RESULTS

	2008	2009	2010	2011	2012
Balance Sheet Indicators (MNT million)					
Total Assets	697,179	1,013,109	1,573,413	2,134,683	2,527,483
Deposits	505,171	795,251	1,317,499	1,839,324	2,056,581
Net Loans	447,787	505,299	784,605	1,249,341	1,427,922
Capital	63,548	78,471	127,774	187,959	222,115
Profitability Indicators (MNT million)					
Interest Income	69,318	81,832	111,157	165,165	200,245
Interest Expense	(43,569)	(57,905)	(81,448)	(116,240)	(143,127)
Net Interest Income	25,749	23,927	29,708	48,925	57,118
Non-Interest Income (net)	8,912	13,333	16,749	29,503	32,831
Operating Income	34,661	37,260	46,457	78,428	89,949
Operating Expense	(15,178)	(16,712)	(21,242)	(32,515)	(45,419)
Credit and Receivables Loss Expense	(3,958)	(3,240)	983	(6,324)	(10,790)
Impairment loss on financial investment	-	-	-	(2,340)	(1,041)
Pre-Tax Profit	15,525	17,308	26,198	37,249	32,699
Taxation	(3,324)	(4,138)	(6,145)	(9,022)	(6,080)
Post-Tax Profit	12,201	13,170	20,053	28,226	26,619
Financial Structure Ratios					
Deposits / Total Assets	72.5%	78.5%	83.7%	86.2%	81.4%
Equity / Total Assets	7.3%	6.3%	5.3%	6.5%	7.4%
Net Loans / Total Assets	64.2%	49.9%	49.8%	58.5%	56.5%
Net Loans / Deposits	88.6%	63.5%	59.6%	67.9%	69.4%
Non-Performing Loans to Total Loans	3.9%	4.4%	2.1%	2.0%	2.6%
Gearing ratio (Total Liabilities / Total Capital)	10.0	11.9	11.3	10.4	10.4
Profitability					
Return on Average Assets (%)	1.8%	1.6%	1.7%	1.6%	1.2%
Return on Average Equity (%)	24.3%	22.5%	26.6%	24.6%	15.3%
Net Interest Margin (%)	4.2%	4.1%	3.6%	3.6%	3.5%
Cost Income Ratio (%)	43.8%	44.9%	44.0%	41.3%	50.3%
Prudential Ratios					
Capital Adequacy Ratio >13%	12.8%	13.4%	13.5%	12.9%	13.3%
Forex Exposure Ratios:					
Total Currency <+/-40%	11.9%	11.8%	17.1%	10.6%	17.8%
Single Currency <+/-15%	9.5%	10.0%	11.2%	-5.1%	-9.5%
Single Borrower Exposure/Capital funds <20%	19.5%	19.9%	17.6%	19.8%	18.9%
Related Party Exposure <5%	3.7%	3.5%	3.4%	3.4%	3.5%
Related Party Exposure-Total <20%	10.5%	15.9%	10.3%	12.7%	9.5%
Liquidity Ratio >25%	37.0%	51.7%	51.2%	38.9%	41.1%
Fixed Assets Ratio <8%	1.0%	0.7%	1.6%	1.5%	1.5%

RISK MANAGEMENT AND CONTROL

Golomt Bank pursues a prudent risk policy aimed at maintaining a moderate risk profile, which is reflected in our comfortable liquidity position and robust capital position.

Credit Risk Management

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations as and when the obligations become due. We are generally exposed to credit risk primarily through our financial and investment assets and contingent liabilities. We limit our credit risk concentrations to individual borrowers, groups of borrowers or industrial sectors by controlling credit exposure, such as guarantees, certain financial instruments in which we invest as part of our treasury activities, letters of credit and interbank deposits. These limits on credit and counterparty risk apply not only to our lending activities (and are included as part of the loan approval process discussed below), but also restrict the maximum exposures to which, through the activities of the Treasury Division, we may be subject at any time in managing our risk.

Our credit approval process, credit strategy, policies and procedures follow the guidance set out in the Principles for the Management of Credit Risk published by the Basel Committee on Banking Supervision (the "Basel Committee"). The Principles for the Management of Credit Risk provide guidance for the management and control of credit risk by way of 16 principles, focused on (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk.

Our credit policy is intended to mitigate the credit risk arising out of our lending activities in the context of our growth strategy. For the purpose of our credit policy, we assume that Mongolia's economy will continue to grow over the medium term and, accordingly, we plan to accommodate further expansion of our loan portfolio while maintaining our stringent credit approval standards. Our Board of Governors, the Risk Management Committee and Senior Management are responsible for periodically reviewing and approving our credit strategy and policies. Our Board of Governors is also responsible for setting the primary ratios and other critical balance sheet-related factors, including the maximum leverage ratio, minimum regulatory capital ratio, and assets to deposits ratio, used in our operations and management of credit risk.

We have developed an internal credit rating system that we use for corporate and SME loans in excess of MNT 50.0 million to assess impartially and accurately the repayment capacities of organizations and individuals prior to loan disbursement. The system takes into account three broadly defined factors, namely: the main- and sub-industry in which the borrower operates, underlying business prospects (including borrower experience, diversification in business segments and customers, market share and branding) and the specific financial status of the individual borrower. The results of this proprietary credit assessment are used by the Credit Committee, Sub-Credit Committee and branch credit committees, as applicable, in order to make credit decisions and monitor outstanding loans.

For our analysis of corporate loans and SME loans, we consider, among other things, the potential borrower's credit history, industry, marketing and consumer behavior, management and control and financial condition, as well as any collateral that will be provided for the loan.

Lending Policies and Procedures

We manage our credit risk by closely monitoring and managing the quality of our loan and investment portfolios. The Credit Committee is responsible for all issues relating to our lending policies in accordance with the directions of the Board of Governors and the Risk Management Committee. The Credit Committee sets the limits on the level of credit risk by borrower, as well as limiting exposure to any one borrower or group of related borrowers by imposing sub-limits covering on and off balance sheet exposures. The Credit Committee monitors credit risk on a continual basis and subject to quarterly or more frequent reviews. We conduct comprehensive exposure reviews of each corporate borrower at a minimum of once per year.

The Credit Committee also has a sub-committee which is responsible for approving certain credit decisions. The Credit Committee is responsible for approving the terms of credit facilities for amounts over MNT 300.0 million, while the Sub-Credit Committee is responsible for approving the terms of credit facilities for amounts up to MNT 300.0 million.

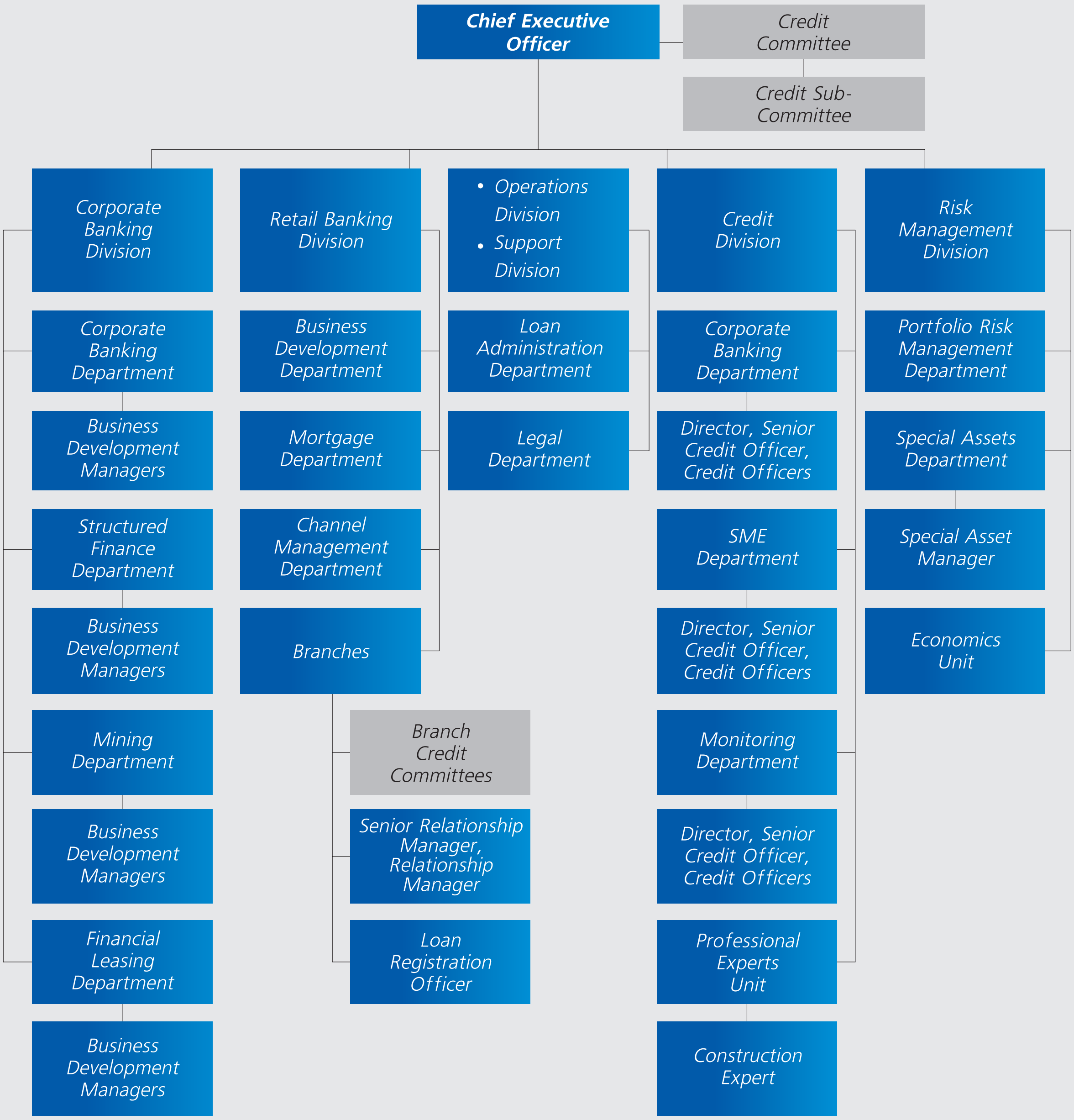
Within each branch, credit decisions for loans below the credit limit set for such branch are approved by the branch credit committee. Maximum lending limits for each branch are set by the Credit Committee. Individual branch lending limits can be increased up to the maximum for branches, or revoked, depending on the individual branch's compliance with our credit policies and ongoing reviews of their performance history and the economic environment.

Lending process

Below is a discussion of our loan approval process:

- Corporate loans: Corporate lending represents the largest segment of our lending activities. Generally, our corporate lending proposals are initiated by a business development manager. Prospective corporate customers are contacted by a business development manager to discuss a preliminary proposal. Following the outcome of such discussions, the business development manager logs the terms of the proposal within the Corporate Banking Department of the Credit Division as a proposal under discussion and the loan is discussed by members of the Credit Division and management for submission to the Credit Committee, Sub-Credit Committee or a branch credit committee, as applicable. Then, a credit officer will perform a financial analysis of the proposal in order to have an in depth knowledge of the customer and the industry in which the client operates. The analysis can include feasibility studies and analysis of the market position, reputation and experience of the potential corporate borrower. If applicable, we obtain credit references and other references on the potential corporate borrower from third parties, including other banks and various governmental authorities, such as taxation bodies and the credit bureau within The Bank of Mongolia that collects information regarding borrowers' credit history. We internally appraise the value of the proposed collateral or engage an independent assessor and conduct appropriate legal title identification and lien searches.

- SME loans: SME loans in excess of MNT 300.0 million are subject to the same lending process as corporate loans. SME loans between MNT 50.0 million and MNT 300.0 million are discussed by members of the Branches and SME Unit of the Credit Division for submission to Sub-Credit Committee or a branch credit committee, as applicable. The Branches and SME Unit of the Credit Division then performs its analysis of the proposed loan, including a credit assessment and report under our internal credit rating system, and makes a recommendation to the Sub-Credit Committee or the branch credit committee, as applicable for any given loan. Loans for amounts less than MNT 50.0 million are considered by the applicable committee with a recommendation from the Monitoring Department of the Credit Division.



- Credit review process: After the Credit Division receives a proposal from the Corporate Banking Department or the Branches and SME Department; it logs the proposal into its credit database as a "credit awaiting approval" and then undertakes an independent analysis of the proposal. The Credit Division principally evaluates the proposal based on a number of factors under our internal procedures, including: (i) sectoral limits established for various industries and products; (ii) single borrower limits and group of related borrowers' limits; (iii) indicative pricing of the proposed loan; (iv) the maturity profile of the loan portfolio; (v) the composition and weighting of the loan portfolio; and (vi) other macroeconomic issues and estimates as may be appropriate under our internal credit approval guidelines in the determination of the Credit Division. Credit requests are prepared by experienced credit officers based on the analysis and evaluation of a debtor's creditworthiness. We use available statistical data and external reports to assess the creditworthiness of borrowers. Under the credit approval policy, applications must be approved by the Credit Committee, the Sub-Credit Committee or the relevant branch credit committee, as applicable, depending on the amount of the requested facility.
- Retail loans: Our retail loan process is similar to our corporate loan process. Most of our retail customers apply for a loan with a credit officer in one of our branch offices. If the proposed terms of the loan are acceptable to the retail customer and the required supporting documentation is provided, the credit officer logs the loan application with the Credit Division and prepares a financial analysis for a review by the branch credit committee for those loans that are within the approval authority of the branch credit committee. If the amount of the loan exceeds the amount that the branch credit committee can approve under our credit approval policy, the loan application is transferred to the Sub-Credit Committee or the Credit Committee, as appropriate, for a decision on the application.

Loan monitoring

We manage our on-going credit risk exposure through regular analysis of the capacity of potential borrowers to satisfy interest payments and principal loan repayment obligations, and also by instituting lending limits of an appropriate amount, maturity and conditionality together with collateral requirements in order to provide an alternative means for us to liquidate and source funds to satisfy a borrower's repayment obligations should there be any unforeseen impediment to the primary cash flow and repayment source. The Monitoring Department of the Credit Division conducts an on-going review of our loan portfolio. This assessment includes identifying loans designated for a "watch list" for more frequent monitoring due to indications of a heightened risk of non-payment or material default as well as classified portfolio reviews, which are conducted on a not less than monthly basis. The review process assesses the loan portfolio by risk rating and by general industry risk rating. Relationship managers participate in the periodic review process, which solicits input regarding their account relationships. When a loan has been placed on a "watch list," relationship managers contact customers to discuss strategies reduce the risk of delayed or non-payment. Related departmental officers, credit officers and senior management also participate in the process. Following the input of the relevant personnel, the Monitoring Department of the Credit Division prepares a closing review report for management evaluating the structure, composition, balance and tenor of the loan portfolio, and its assessed credit quality, quotient. In addition it present the pertinent risk return metrics and highlights all salient issues from the assessment such as changes in the macro-economic environment.

Loan collection process

Primarily we entrust responsibility for loan collection to the relationship managers and credit officers and require that evidence of any collection activity, whether in writing or conducted verbally, be maintained in our records. In the event of late payment, our policies require that customers be contacted for payment within five days of the scheduled due date, and, depending on the outstanding amounts and customer's payment history, relationship managers are encouraged to proactively make such contact in appropriate cases prior to the due date. The manner and frequency of contact are determined by the amount of delinquent principal interest payment, and we direct greater efforts toward larger outstanding balance accounts and those customers with a history of slow payment. Although the Corporate and Retail Banking Divisions have discretion to establish the priority and frequency of collection contacts, generally the first contact for all past due accounts is made by a combination of telephone and e-mail correspondence. Subsequent collection efforts are then determined based on the results of the initial contact.

Generally, the loan collection process involves the following:

- we send all customers a monthly account statement identifying all past due balances. In addition, selected accounts identified by the relationship manager and separately monitored by the Credit Division are entered into an automated process which issues periodic reminders to delinquent customers to maintain regular contact;
- for those customers with overdue balances in excess of 30 days, the credit officers re-assess the customer's creditworthiness and contact those customers to recommend alternative business management practices, such as accounts receivable policies, marketing strategy, sales growth strategies, pricing policies and increases in raw material and goods turnover in order to assist the customer to strengthen its prospects for current and future cash flows;
- after initial remedial efforts have been undertake to recover outstanding amounts, accounts delinquent more than 90 days are transferred to the Special Assets Department of the Risk Management Division for further appropriate action;
- any disputed item, claim, or payment deficiency identified by the Credit Division is also notified to the Special Assets Department for resolution. The Special Assets Department is given a period of 30 days to attempt to resolve all disputes and upon expiry of that period, it is required to instruct third-party collection agents to commence recovery efforts on our behalf accompanied by appropriate legal action.

Credit risk Modeling and Portfolio Quality

We utilize proprietary methodology compliant with the requirements of IAS 39: Financial Instruments: Recognition and Measurement of the International Accounting Standards Boards (IASB to estimate credit risk components and the probabilities of default and loss given default. The proprietary methodology facilitates management of credit risk exposures through objective reappraisals of limit ranges, concentration factors and other applicable parameters. The Past Due and NPL classification includes loans overdue for one or more days and those loans which are determined to be impaired in the management's view in accordance with IAS 32: Financial Instruments: Recognition and Measurement (which requires that a loan's carrying value be no greater than its estimated future cash flows discounted at an effective interest rate). In assessing the loans, a borrower's financial positions as well as external environmental factors are taken into account.

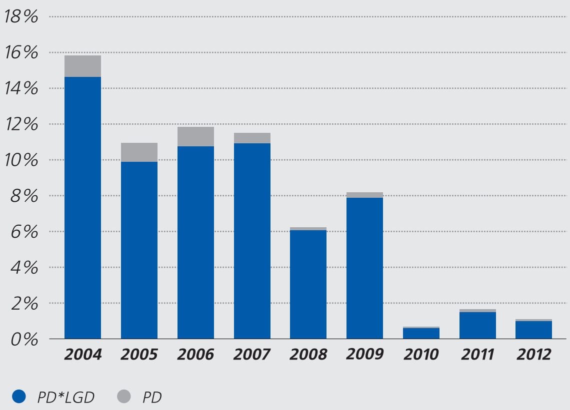
Industry Analyses and Concentrations

We apply concentration limits to our loan portfolios to manage overall loan portfolio credit quality. Under our internal policies, aggregate loans to any single sector of the economy are limited at a maximum of 20.0 per cent. of the total loan portfolio. In addition, we set other limits, such as a limit on loan exposure to any single borrower, connected group of borrowers, and rating and country limits. Management believes that our loan concentration reflects the concentrated and less diversified evolving structure of the current economy of Mongolia and, to mitigate industry concentration risks, we periodically review local industrial sectors in order to identify opportunities to diversify our loan portfolio. As at 31 December 2012, our principal credit risk component was the trade - whole & retail sector, which accounted for 10.3 per cent. of our total gross loan portfolio, while the second principal credit risk component was the mining and exploration sector, which accounted for 10.2 per cent. of our total gross loan portfolio.

Loan Classification and Loan Loss Provisioning Policy

The Credit Committee is responsible for the development and regulation of the quality of our loan portfolio. The Portfolio Risk Management Department within the Risk Management Division monitors our overall loan portfolio using a centralized system to evaluate the quality of the loan portfolio and the requirements for loan loss provisions in relation thereto.

Credit Risk Measurement Methodology



Loan classification: Loans are monitored on a periodic basis, which allows us to identify problem loans at an early stage. In addition, for loans greater than MNT 1.0 billion, an in depth review of each borrower's financial condition is carried out on-site on a quarterly basis or as soon as payment by the borrower is overdue more than 14 calendar days. We assess the status of any collateral at least four times per year. Whenever repayment is one day late, the Credit Division begins working on recovery of the problem loan.

Loans and off-balance sheet exposure are classified by reference to: (i) the customer's financial performance; (ii) the timeliness of repayment of principal and/or interest; (iii) the quality of collateral; (iv) whether there has been any extension of the loan; (v) the timeliness of repayments on other loans; (vi) whether there has been any unauthorized use of the loan; (vii) whether other credits to that customer have become impaired; and (viii) any rating assigned to the customer.

The Portfolio Risk Management Department produces a monthly report, which includes the analysis of the credit risks within the loan portfolio. The Credit Division focuses upon the timeliness of debt repayment with classified loans and contingent liabilities included in such monthly reports. Immediate action is taken by the appropriate departments, which have responsibility for supervising and monitoring loan repayment if any principal or accrued interest repayment problems arise. Any significant deterioration in the quality of the assets and contingent liabilities of the entire loan portfolio is brought to the attention of the Credit Committee.

Our financial statements are prepared in accordance with IFRS. Calculation of loan loss provisions for the purposes of our IFRS financial statements are carried out on at least a semi-annual basis, while we monitor our prospective loan losses based on management data on a daily basis. For the purposes of preparing our financial statements under IFRS, we record charges to loan loss provisions collectively for all loans and individually for loans we have identified as impaired.

Liquidity risk

Liquidity risk is the risk that we might be unable to meet our financial obligations in a timely manner or on reasonable terms. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments. Liquidity risk arises in the general funding of our financing and investment activities and in the management of positions. This risk includes unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the inability to liquidate a position in a timely manner on reasonable terms.

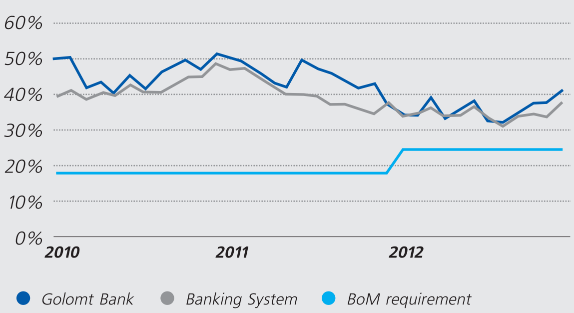
Our liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short- and medium-term payment obligations could be met under normal or stressed conditions. Accordingly, our policies are intended to ensure that, even under adverse conditions, we have access to sufficient funds to satisfy customer needs, maturing liabilities and the capital requirements of our operations, while maximizing our interest earnings and other income on any surplus cash flows. We seek to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations while funding our operational needs and enabling our compliance with regulatory minimum capital requirements.

Liquidity is managed centrally on a real-time basis by the Treasury Division according to the requirements and forecasts for all of our divisions and branches. The Director of the Treasury Division is consulted on each major credit decision in respect of the impact on our overall liquidity position. In addition, the ALCO reviews our liquidity guidelines and strategy at least twice a month, making any necessary adjustments. The Risk Management Committee sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework for our liquidity risk management. We observe conservative limits and guidelines which reflect our low tolerance of liquidity risk, and the ALCO monitors our compliance with the liquidity risk standards and policies.

As part of a comprehensive liquidity risk evaluation, the ALCO incorporates and monitors the cumulative effect of the following factors: (i) short- and long-term cash flow management; (ii) maintaining a structurally sound balance sheet; (iii) foreign currency liquidity management; (iv) preserving a diversified funding base; (v) undertaking regular liquidity stress testing; and (vi) maintaining adequate liquidity contingency plans.

The ALCO's monitoring process is supported by a number of internal and external control systems. Our external control systems apply purpose-built technology, documented process and procedures, independent oversight by the Risk Management Division and the Risk Management Committee, and regular independent reviews and evaluations of the effectiveness of the system. In connection with these internal and external control systems, we utilise a variety of tools to evaluate liquidity risk, including (i) interest rate, maturity and foreign currency gap analysis on a monthly basis, (ii) daily monitoring of actual cash flows, and forecasting cash flows and our long-term estimated balance sheet, (iii) monitoring of optimal asset and liability structure on a monthly basis by the Financial Control Division, (iv) observations of liquidity ratios and minimum reserve requirements on a daily basis, (v) discussions by the ALCO of anticipated liquidity operations for the next month based on analytical reports, capital market projections, and liquidity requests by internal divisions such as the Treasury and Corporate Divisions, and (vi) limits on operations, such as liquidity ratios, limits on gap sizes, and monthly lending limits, which are monitored by Risk Management Division.

Liquidity Ratio



Maturity analysis represents the basis of an effective management of exposures to structural liquidity risk since expected cash flows vary significantly among contractual maturities. We predict the probable maturities of our assets, liabilities and off-balance-sheet commitments that are payable on demand or on short notice by applying behavioral profiling based on our historical experience with similar assets, liabilities and off-balance-sheet commitments that exhibit stable behavior. The process is intended to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current accounts and demand deposits which, although contractually repayable on demand or on short contractual notice periods, consistently exhibit stable behavior over various time periods predicated upon analytical evaluation.. We set limits and guidelines to mitigate the mismatch between expected inflows and outflows of funds during the measurement period and we actively manage our short-term funding ratios to preserve liquidity and offset structural imbalances which may arise in the ordinary course of business. We assess our net liquidity gap arising from structural factors on the basis of the following key metrics:

- Net loans / Current accounts & deposits;
- (Deposits with The Bank of Mongolia + Cash) / Current accounts & deposits;
- Assets up to one month / Liabilities up to one month;
- Funds from banks and financial institutions / Current accounts & deposits;

- Deposits with banks & financial institutions / Current accounts & deposits;
- Liquid assets / (Current accounts & deposits + Funds from banks & financial institutions);
- Liquid assets / (Current accounts & deposits + Funds from banks & financial institutions + Contingent liabilities);
- Liquid assets / Total assets;
- Net loans / Total assets;
- Net loans / Current accounts & deposits;
- Net loans / (Current accounts & deposits + Funds from banks & financial institutions);
- Term deposits / Total liabilities;
- Foreign currency assets / Total assets;
- (Deposits with banks & financial institutions + Foreign currency deposits) / Foreign currency current accounts & deposits;
- Net foreign currency loans / Total assets;
- Foreign currency liquid assets / Foreign currency current accounts & deposits;
- Wholesale current accounts & deposits / Current accounts & deposits;
- Government current accounts & deposits / Current accounts & deposits; and
- Other concentration analysis ratios

Foreign Currency Liquidity Management

We incur foreign currency risk as a result of having assets, liabilities and on- and off-balance sheet items that are denominated in currencies other than the Mongolia Tugrik, as a result of our normal funding and investing activity. We observe a wide range of parameters in the event of changes either in market liquidity or in exchange rates and accordingly work to contain the extension of our foreign currency loans within a sustainable funding base for each foreign currency. The goal of our foreign currency risk management policies is to minimize currency exposure by requiring net liabilities in any one currency to be matched closely with net assets in the same currency. Historically, we have always managed and continue to manage our foreign currency risk principally by holding or lending the proceeds of our borrowings in the currencies in which they were borrowed. In addition, as a matter of core policy we evaluate whether borrowers have an income stream which matches the currency of the loan.

Diversified Funding Base

Concentration risk limits are used to ensure that funding diversification is maintained across all sectors and wholesale deposits. Deposits across a very board spectrum of wholesale and retail customers, and subordinated borrowings constitute our primary sources of non-capital based funding.

Liquidity Stress Testing

Anticipated balance sheet cash flows are subjected to a variety of both bank-specific and systemic stress test scenarios in order to evaluate the impact of plausible events on the liquidity positions. The stress test scenarios are based on both historical and hypothetical events (e.g., a specific crisis both assessed at escalating levels of gravity), with the results guiding our targeted liquidity risk positions.

Liquidity Contingency Plans

We periodically assess our contingency plans for protecting the interests of all our stakeholders and maintaining the market's confidence in order to counteract the effects of a sustained liquidity crisis. These contingency plans incorporate a number of early warning indicators and set out crisis response strategies which may be implemented in the event of such liquidity crises. We monitor these early warning indicators based upon specified frequencies and tolerance levels, and our response strategies are formulated based on the relevant crisis management structure. Our response plans include an internal and external communications strategy, proposed steps to generate additional liquidity and enhanced information disclosure, as well as proactive cooperation and information sharing with regulatory authorities and our Shareholders.

Market risk

Market risk is defined as the risk of incurring losses (which may be significant) resulting from adverse changes in risk factors such as interest rate, foreign exchange rates, fixed income, equity and other financial instrument prices (including derivatives), and general market volatility. We are exposed to market risk because of our proprietary positions in trading and non-trading business portfolios and also our Treasury operations as well as through the risk of default by counterparties upon matched, hedged or arbitraged market transactions.

The Risk Management Committee of the Board establishes our annual risk strategy statement, which sets an overall limit for market risk and sub-limits for sectors and instruments. The ALCO monitors market risk exposure within the parameters set by the Risk Management Committee through a review of interest rate and currency exchange rate exposures, and identifies current events and forecasts future developments that could have a material adverse impact upon our operations and financial condition.

The Treasury Division is responsible for the day-to-day management of market risk. The Treasury Division manages our market risk exposure by monitoring our asset composition, investment instruments and categories, hedging transaction within approved counterparty limits, in each case as directed per the policies and procedures approved by the Risk Management Committee. The Treasury Division reports directly to the Chief Executive Officer and operates under the on-going oversight and supervision of the ALCO.

Interest rate risk

The principal market risk arising from our non-trading activities is interest rate risk. Interest rate risk is defined as the risk to earnings or capital arising from movements in interest rates; from changing rate relationships along yield curves that impact our activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-rate-related options embedded in our obligations (option risk). The evaluation of interest rate risk considers the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income that is sensitive to changes in interest rates. We mainly face interest rate risk due to:

- assets and liabilities which may mature or reprice at different times (e.g., if assets reprice faster than liabilities and interest rates are trending downwards, earnings will decline);
- assets and liabilities which may reprice at the same time but by different amounts (e.g., when the general level of interest rates is falling, we may be constrained to reduce rates paid on deposit accounts by an amount that is less than the general decline in market interest rates);
- short-term and long-term market interest rate movements may diverge (e.g., the shape of the yield curve may affect new loan yields and funding costs differently)
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (e.g., if long-term mortgage interest rates decline sharply, mortgagees may prepay earlier than anticipated, which could materially reduce income).

The principal objective of our interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure. We manage our interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, we manage and minimize risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic repricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on interest income. We monitor our interest rate risk by estimating our exposure to the risk of interest rate and interest margin change, monitoring existing risks with regard to established limits, constant monitoring of news that may impact our interest rate position, and monitoring of interest rate risk on new banking products. In addition, we analyze the composition of our assets and liabilities and off-balance sheet financial instruments.

The current limitations on our ability to reprice our loan portfolio in between contractual maturities are in contrast to the potential repricing of our deposits where our current accounts and short-term deposits are subject to repricing at any time in response to market forces.

Value-at-risk

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

The primary focus of our trading activities is as an intermediary for our customers to provide appropriate products and services at competitive prices. We also undertake:

- market making (such as quoting firm bid (buy) and offer (sell) prices with an intention of profiting from the spread between the quotes);
- arbitrage (such as entering into offsetting positions in different but closely related markets in order to profit from market imperfections); and
- proprietary activity (such as taking positions in financial instruments as a principal in order to take advantage of anticipated market conditions), all within tightly controlled authorized exposure and counterparty limits.

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

(MNT thousand)	*Delta Normal*	*Monte Carlo*	*Historical Simulation*
31st December	*114,443*	*118,334*	*129,954*
Average Daily	*140,253*	*141,948*	*183,030*
Highest	*561,410*	*648,023*	*740,283*
Lowest	*14,366*	*14,132*	*16,130*

We apply three types of value-at-risk ("VaR") methodology to measure the market risk of our trading and treasury portfolios. VaR technique produces estimates on potential negative changes in the market value of a portfolio over a specified time horizon within a given confidence level. We use measurement periods of one and ten trading days in our VaR analysis and we verify our results by an automated daily programme of back-testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with The Bank of Mongolia's prudential limits and results in a confidence level of 99.0 per cent. In addition to VaR methodology, we also conduct recurrent stress testing to identify potential losses in excess of the projected VaR.

Operational risk management

Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk whereas strategic risks are not included. The objective of the group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Bank's risk appetite.

Clear and accessible policies and minimum standards are embedded in Golomt Bank's business processes in all business lines. An infrastructure is in place to enable management for daily decision making based on advanced risk analysis done by modern statistical risk assessment tools, e.g. Basel II approaches. Incident data collection is best performed through Integrated Risk Database Software and daily Check-Sheet. A comprehensive system of internal controls and regular monitoring create an environment of continuous improvement in managing operational risk within the Bank and the Group.

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Risk measurement and event identification are performed proactively. Different techniques for event identification and risk measurement exist within Golomt bank, e.g. the Basel II approach, scenario analysis, external events inventories, internal incident analysis, key risk indicator events and threat scans.

An integrated risk assessment is regularly performed with various tools used in the international level covering wide range of activity. Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk.

Risk transfer

Golomt bank has adopted prudent insurance policy within the risk transfer program. In order to protect the Bank against consequences of uncertain operational events, Golomt Bank has developed close cooperation with international reinsurers backed by Lloyd's market in London. Besides insurance policies recommended by local and international regulatory authorities, supervisory committees, the Bank issued various voluntary policies through insurers with financial strength ratings of AA-, A by Moody's and Fitch.

Information security management

Information risk includes the risk of intentional or unintentional unauthorised use, modification, disclosure, or destruction of information resources which might adversely affect the Bank's ability to preserve our records, maintain business continuity, preserve the confidentiality of our proprietary or sensitive information or harmful to our reputation among customers. Our information risk management practices are in accordance with global best practices, applicable laws and regulations. The Operational Risk Management Department within the Risk Management Division together with Information Security Unit within Information Technology Division is responsible for the oversight of accounting control, user logs, servers and core banking application functions. In that capacity, the Operational Risk Management Department uses a number of programmes customised for our specific requirements to conduct its daily monitoring function.

Fraud management

Fraud risk management is another component of operational risk management. While operational risk management generally focuses on the risks associated with errors and events in transaction processing or other business operations, fraud risk management assesses the likelihood that any errors or events are the result of deliberate dishonest acts. A core element of our corporate governance is the identification and rectification of potentially fraudulent acts. We work to prevent all types of fraudulent acts such as false accounting or theft of cash or other assets. To that end, we have developed and implemented a comprehensive anti-fraud strategy that uses ethics and anti-collusion policies by applying comprehensive controls and procedures at all operational levels. Moreover, we have mitigated those risks by assessing each area and process within our business, and classifying all perceivable potential fraud risks through identification and categorisation of potential offence.

Business continuity management

The business continuity plan is important to maintain in the event of any unforeseen but significant business disruptions. With regard to business continuity management, Golomt Bank complies with all requirements set by bank of Mongolia and other regulatory authorities. Accordingly, we have in place a business continuity plan designed to assist in managing serious disruptive crises through advance planning and preparation. The Operations Risk Department is responsible for ensuring the compliance of all divisions with our business continuity plan and, together with the combined Disaster and Business Recovery Teams, monitors all issues that could threaten or impede our business continuity.

Money Laundering Control

The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering. The Bank continues to strengthen its commitment to combat money laundering and terrorist financing and has adopted an AML/CFT Program that includes four pillars: a) designation of an individual responsible for managing AML/CFT compliance; b) a system of internal controls to ensure ongoing compliance; c) training for all employees of the bank; d) independent testing of the AML/CFT Program.

Policies and internal controls are designed with the objective that all employees are aware of the relevant risks, the potential impact, the appropriate mitigating measures and their personal role in applying these measures. To that end, the Bank provides all its new recruits with an overall comprehensive training program while maintaining regular training and knowledge updates for all existing staff. In addition, all employees in branches, frontline operational and internal control areas as well as employees of specific units such as Private Banking Department are provided with specialized supplementary training.

AML/CFT Unit provides the Management with all necessary information and reports directly to the Board of Governors on a quarterly basis.

The Bank continues to pay attention to the qualification and experience of employees responsible for AML/CFT issues and one of the significant proofs is that the Bank's AML Officer has earned the Certified Anti Money Laundering Specialist designation, recognized by businesses and public agencies worldwide.

According to its policy regarding the fight against money laundering and the financing of terrorism, the Bank, like all foreign banks, have corresponding banks in the U.S and therefore must fulfill the certificate Patriot Act, published by the U.S Department of Treasury. In compliance with the Sections 313 and 319 (B) of the U.S Patriot Act the Bank has concluded an agreement with a Process Agent located in United States and responsible for accepting and forwarding the legal process to the Bank.

Special asset recovery

Special Asset Recovery Department of the Bank deals with monitoring and recovering of loans and overdue receivables with repayment problems. Our determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria, including: the credit's classification as described above; sudden changes in transaction volumes in the customer's accounts; applications to change credit terms; failure of the customer or a counterparty to fulfill terms under a contract relating to the credit; or a customer's refusal to cooperate and/or evasion of our officers. Overdue receivables are deemed to receivables which borrowers failed to repay, lose contact of borrowers, customer's refusal of repayment etc.

In the event of a potential problem loan, our special asset managers, the Loan Division's specialists and the employees who are responsible for those loans and receivables assess the borrower's operations, current assets, tangible and intangible properties and other valuable goods. Moreover, the team develops the plan and strategy to work on. The Bank adopts an appropriate method intended to fully collect overdue payments within a specified timeframe in order to protect the asset. The special asset managers are responsible for collecting overdue payments using judicial and in-judicial methods. If necessary, we assign contractual debt collectors. The Special Asset Recovery Department managers supervise and control the debt collectors operations.

We generally work together with our corporate customers, beginning soon after a potential problem loan has been identified, to suggest management strategies to meet their commitments, such as collecting on accounts receivable, selling tangible and intangible assets and improving marketing effectiveness and operational efficiency. Collection efforts are determined based on the results of previous customer contacts, the customer's creditworthiness and their amenability to repayment proposals which are acceptable to us.

In appropriate cases, we may adopt a workout strategy by modifying the original terms of the loan. Under this strategy, the Special Asset Recovery Department works with a borrower to adjust the terms of the problem loan, including cancelling payment of penalty fees, granting a grace period or reducing monthly payments, with a view to maximizing our recoveries. Any changes to the terms of a loan must be first presented to and approved by the Credit Committee, Credit Sub-committee or Director of Risk Management, depending on the size of the credit.

If the loan reverts to our standard classification and no longer considered as problem loan, the Special Asset Recovery Department continues to monitor the loan for another six to twelve months.

If the NPL is not paid voluntarily it's transferred to the Court. The recovery activity is conducted based on Court's decision and if necessary with the involvement of the Law enforcement agency. This activity is carried out based on legal regulations and requires certain period of time and funds. Before this action, we make an assessment based on our own expertise and conduct an independent appraisal regarding the possibility to secure the financial obligations and the estimated realizable value of the collateral.

According to "Asset classification, provisioning and amortization regulation" by the Minister of Finance and President of Central bank, non-performing loans will be covered by the provision under Write-Off committee decision, booked in off-balance sheet and registered in Black-list.

CORPORATE SOCIAL RESPONSIBILITY

We conducted projects and programmes of sustainable growth while strongly supporting initiatives and proposals that are in line with our objectives to contribute the economic development of Mongolia and build social capital by bringing positive changes.

The Bank has a longstanding heritage to benefit the environment and community we serve in. In 2012, in the framework of our commitment to create value for society as a whole, we conducted projects and programmes of sustainable growth while strongly supporting initiatives and proposals that are in line with our objectives to contribute the economic development of Mongolia and build social capital by bringing about positive changes.

Supporting Education

The main beneficiaries of our educational projects are young generations who can build prosperous and empowered future. Since our early years, we consistently supported educational development and have played a leading role by initiating and funding different projects. In 2012, we have successfully conducted below projects:

- The Bank sponsored and organized the 11^{th} Student's Scientific Conference for students from all Mongolia's leading universities providing a platform for creative ideas to take shape.
- The Bank implemented our longstanding University Students' Scholarship Programme for the 10^{th} consecutive year which provides monthly stipends to 100 students of outstanding academic achievement. We have invested more than MNT 600 million in total of 1000 students over the years.

We are proud to have initiated such scholarship program for the first time in Mongolia which finally turned to be a competitive contest of higher reputation that students eagerly wait to challenge themselves.

Supporting Sports and Culture

Our commitment for social development leads to generous sponsorship in the arenas of sport, culture and arts. Within the framework, we have a passion to stimulate classic cultural development, sponsor the people of creative talent preparing for international games or competition and broaden horizons for traditional music reflective of Mongolia's unique cultural heritage. With projects like following, we strive to benefit the broader Mongolian community.

- The year 2012 marks with London 2012 Olympic Games and we are honored to be promoted as a "Golden Partner" of the Mongolian National Olympic Committee while feeling proud of our athletes' splendid victories and valuable medals.
- The Bank successfully managed and organized the Asian Female Students Volleyball Championship in association with the Mongolian Student Sport Committee applauding our national athletes' silver medal.
- We have sponsored the State Academic Theatre of Opera and Ballet for the 5th year in order to contribute to development of the classical arts and increase the knowledge and appreciation of arts and culture among citizens and residents of Mongolia.
- Supporting our younger generation's musical aspirations, we have organized International Teenager Musicians Competition in honor of Mr.Chuluun.
- As a key sponsor of the renowned Mongolian "Morin Khuur" Fiddle Ensemble, we're contributing our part for the artistic development of Mongolian Traditional Culture and Art.
- Our employees have valuable skills. We encourage them to use these to benefit others through involvement in community projects and social enterprises. Our colleagues volunteered to manage the Asian Female Students Volleyball Championship.

Supporting environment

We seek to keep improving the environmental performance of our operations through efficient use of resources and by applying the most environmentally friendly technologies. We also aim to reduce environmental footprints and minimize our impact on the environment to the smallest degree.

- Credit Evaluation: An assessment of the environmental impact constitutes an integral element of our credit evaluation process. We do not support any project which is perceived to be deleterious to the environment. Through our lending policy, we also support businesses, which implement energy-efficient and environmentally friendly operational procedures.
- Financing environmentally friendly business: The Bank is the only institution to extend Two Step Loan Project for SME Development and Environment Projection to its clients among commercial banks supported by Japanese International Cooperation Agency in cooperation with the Ministry of Finance. This year, we announced a contest of Eco-centered loan projects and provided low-interest loan to the winner.
- Promoting the efficient use of resources: The benefits of online banking include less paperwork, less mail and less fuel driving to branch offices, which all generate a positive impact on the environment. We have introduced Self-Service Banking for the first time in Mongolia, saving paper and fuel costs thereby contributing to reduce carbon emission.
- Green office: We set a target to make our operation more environmentally friendly by investing in IT software development to reduce use and cost of paper. We successfully introduced Share point JIRA system into our internal feedback procedure in 2011 and encouraged by the positive changes it generated, we further developed E-Docs system reducing paper based communication drastically.

Supporting Government Initiatives

We continue to provide significant financial and intellectual support to the development initiatives of the Government to attract foreign direct investments to Mongolia and strengthen international relations:

- Through our membership of the World Economic Forum, Institute of International Finance, Emerging Markets Advisory Council, we actively promote the interests of Mongolia in supporting our economic expansion and development.

- We supported new initiatives of economic growth, sponsoring Mongolia Investment Summit, Coal Mongolia 2012 Conference, IPO Conference, Mongolian Corporate Governance Forum, and London Business Forum.
- With our branch offices network, the Bank actively supports the Government Programme to distribute student grants and child benefit.
- The Bank sponsored the 4th "Mongolia Economic Forum" organized by the Government of Mongolia.
- The Bank issued SME Development Fund Project Loans under the auspices of the Ministry of Food, Agriculture and Light Industry to entrepreneurs residing in UB city and rural areas.
- Golomt Bank was rewarded with the "Best Tax Payer" award by the Social Insurance Agency in recognition of our commitment to corporate social responsibility and dedication to Mongolian prosperity and social benefit.

CORRESPONDENT BANKS

No.	BANK NAME	Location	SWIFT and Telex code	Currency	Nostro accounts
1.	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	MELBOURNE, AUSTRALIA	ANZBAU3M	AUD	920660AUD00001
2.	ING BELGIUM SA	BRUSSELS, BELGIUM	BBRUBEBB	EUR USD GBP	301-0104461-73
3.	CANADIAN IMPERIAL BANK OF COMMERCE	TORONTO, CANADA	CIBCCATT	CAD	1818910
4.	THE AGRICULTURAL BANK OF CHINA	BEIJING, CHINA	ABOCCNBJ	USD	8211000908
5.	BANK OF CHINA	ERLIAN, CHINA	BKCHCNBJ880	USD CNY	155605293946 154005293944
6.	BAOSHANG BANK	BAOTOU, CHINA	BTCBCNBJ Bank code: 313192000021	CNY USD	002105599800010 002105599800020
7.	CHINA CONSTRUCTION BANK CORPORATION	NEIMENGU, CHINA	PCBCCNBJNME	USD CNY	NRA15014150500220100181 15001658408052502177
8.	THE AGRICULTURAL BANK OF CHINA	HUHEHAOTE, CHINA	ABOCCNBJ050	USD CNY	05999914040000049 05999901040000053
9.	INDUSTRIAL AND COMMERCIAL BANK OF CHINA		ICBKCNBJNMA	USD CNY	0610040629200061234 0610040609200054391
10.	CHINA CITIC BANK		CIBKCNBJ010 Bank Code: 302191027101	USD CNY	7271111486000000181 7271110186000000155
11.	COMMERZBANK AG, FF/AM MAIN	FRANKFURT, GERMANY	COBADEFF 041/415 2530 CBD	USD EUR	400 878 506 500 400 878 506 501
12.	DEUTSCHE BANK AG		DEUTDEFF	EUR	100-9517673-0000
13.	BANK OF CHINA (HONG KONG) LIMITED	HONG KONG	BKCHHKHH	HKD	012-875-60115674
14.	MIZUHO CORPORATE BANK LTD	TOKYO, JAPAN	MHCBJPJT	JPY	6740010
15.	SUMITOMO MITSUI BANKING CORPORATION		SMBCJPJT	USD JPY	3623 4374
16.	KAZKOMMERTSBANK	ALMATY, KAZAKHSTAN	KZKOKZKX	USD	KZ769260001000694001
17.	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	USD KRW	963-THR-313-01-2 0963FRW001000054
18.	SHINHAN BANK		SHBKKRSE	USD KRW	0102245USD01 0102245KRW01
19.	KOOKMIN BANK		CZNBKRSE	USD KRW	819-8-USD-0-15 819-8-KRW-0-17
20.	LAND BANK OF TAIWAN	TAIWAN, CHINA	LBOTTWTP	USD	088-185-00002
21.	SBERBANK, RUSSIA BAIKALSKY HEAD OFFICE	IRKUTSK, RUSSIA	SABRRU66 231231 SBANK.RU	USD RUB	30111840518000000003 30111810618000000001
22.	JSC BANK FOR FOREIGN TRADE	MOSCOW, RUSSIA	VTBRRUMM	RUB USD	30111810655550000126 30111840155550000104
23.	RUSSIAN AGRICULTURAL BANK		RUAGRUMM	USD RUB	30111840300000000006 30111810200000000013
24.	SBERBANK, RUSSIA MOSCOW HEAD OFFICE		SABR RUM 012	USD RUB	30111840100000000840 30111810800000000840
25.	UNITED OVERSEAS BANK LIMITED	SINGAPORE	UOVBSGSG	SGD	301-399-069-5
26.	BARCLAYS BANK PLC	LONDON, UK	BARCGB22 Sort Code: 20-32-53	GBP	43379779 IBAN: GB33BARC20325343379779
27.	WELLS FARGO BANK, N.A. (FORMERLY KNOWN AS WACHOVIA)	NEW YORK , USA	PNBPUS3NNYC ABA: 026005092	USD	2000191006513
28.	CITIBANK A.S		CITIUS33	USD	36885517
29.	STANDARD CHARTERED BANK		SCBLUS33	USD	3582-026934-001
30.	DEUTSCHE BANK TRUST COMPANY AMERICAS		BKTRUS33	USD	04453138

As of December 31, 2012

BRANCH NETWORK

Head Office: Sukhbaatar Square 3, P.O. Box #22, Ulaanbaatar 15160, Mongolia

Tel: +(976) 70117676

Fax: +(976-11) 313155, 312307

Email: mail@golomtbank.com

Web: http://www.golomtbank.com

REPRESENTATIVE OFFICES

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

OFFICES IN ULAANBAATAR

Name	Address	Contacts
Main Business Center	*Trade Street 6/2, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-310759 Fax: +(976-11)-326231*
Loan Business Center	*Burkhan Khaldun Building, Khoroo #2, Peace Avenue, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-330072 Fax: +(976-11)-330621*
Bayanzurkh Business Center	*'Mungun guur' NBO Building, Khoroolol #12, Khoroo#3, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976)-70157093*
Sansar Branch	*Bayantseel Trade Center, Khoroolol #15, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976-11)-456980 Fax: +(976-11)-456829*
100 Ail Branch	*"And International", B corps, Khoroo #7, Khoroolol #11, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-350542 Fax: +(976-11)-350544*
Ard Branch	*On and On Building, Baga Toiruu Street, Khoroo #1, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-320712 Fax: +(976-11)-330436*
Solongo Branch	*Solongo Service Center, Seoul Street, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-320841 Fax: +(976-11)-318479*
Sapporo Branch	*Barmon Building, Khoroolol #1, Songinokhairkhan District, Ulaanbaatar*	*Tel: +(976-11)-681267 Fax: +(976-11)-680367*
Moscow Branch	*Bodi International LLC Building, Khoroolol #4, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-305419 Fax: +(976-11)-368602*
120'000 Branch	*120 Myangat Service Center, Khoroo #1, Khan-Uul District, Ulaanbaatar*	*Tel: +(976)-70130080*
Monnis Branch	*Monnis Tower, Khoroo#1, Sunkhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-321291 Fax: +(976-11)-321273*
Bayanzukh Branch	*Bo-Bo Trade Center, Khoroo #15, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976-11)-458250 Fax: +(976-11)-462892*
Golomt City Branch	*Building #1, Golomt City Complex, Khoroo #5, Constitution Street, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-322943 Fax: +(976-11)-322943*
Airport Settlement Center	*"Chinggis Khaan" International Airport, Khan-Uul District, Ulaanbaatar*	*Tel: +(976-11)-283205 Fax: +(976-11)-283205*
Customs Settlement Center	*Customs Office, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-242945 Fax: +(976-11)-242945*
Baganuur Settlement Center	*Kherlen Trade Center Building, Baganuur District, Ulaanbaatar*	*Tel: +(976)-70212332 Fax: +(976-01-21)-20818*
Tsambagarav Settlement Center	*Tsambagarav Trade Center, Khoroolol #1, Songino-Khairkhan District, Ulaanbaatar*	*Tel: +(976-11)-680762 Fax: +(976-11)-680763*

Tsetsee Gun Settlement Center	*Tsetsee Gun University, Khoroo #4, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-316395 Fax: +(976-11)-316395*
13th Khoroolol Settlement center	*MGL Building, Manlaibaatar Damdinsuren Street, Khoroo #25, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976-11)-457018*
Tamir Settlement Center	*"Khanna-Impex" company building, Ard Ayush Street, Khoroolol #3, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-304959 Fax: +(976-11)-304959*
Narantuul Settlement Center	*Administration Building, Narantuul International Trade Center, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976-11)-457018*
Ikh Delguur Settlement Center	*Zan International Building, Khoroo #4, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976)-70111351*
Nomin Settlement Center	*State Department Store, Peace Avenue, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-319977 Fax: +(976-11)-314242*
Central Tower Settlement Center	*Central Tower, Sukhbaatar square, Khoroo #4, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-326474 Fax: +(976-11)-326494*
32 Toirog Settlement Center	*Sansar-32 Trade Center, 32-r toirog, Khoroo #12, Sunkhbaatar District, Ulaanbaatar*	*Tel: +(976)-77443232 Fax: +(976)-77443131*
Songinokhairkhan Settlement Center	*Javkhlant Building, Khoroo #19, Songinokhairkhan District, Ulaanbaatar*	*Tel: +(976-11)-636205 Fax: +(976-11)-636217*
IBMUT Settlement Center	*National Registration Office, Police street, Khoroo #11, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-350267*
SHUTIS Settlement Center	*Central Campus of Mongolian University of Science and Technology, Khoroo #8, Baga-toiruu, Zaluuchuud avenue, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976)-70111530*
Officer's Palace settlement Center	*Khorgo town building 2-3, Dardanbaatar's street, Khoroo #16, Bayanzurh District, Ulaanbaatar*	*Tel: +(976)-70022002*
MaxMall Settlement Center	*MaxMall Trade Center, Peace Avenue, Bayangol District, Ulaanbaatar*	*Tel: +(976)-70111227*
Urgoo Settlement Center	*Hotu Building, Khoroolol #3, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-368276*
Variete Settlement Center	*Gazar Holding Co,Ltd Building , Khoroo #4, Bayangol District, Ulaanbaatar*	*Tel: +(976)-70129701*
10th Khoroolol Settlement Center	*Old Czech Building , Khoroo #5, Khoroolol #10, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-682108*
Tengis Settlement Center	*Victory center, Sambuu's street, Khoroo #5, Chingeltei District, Ulaanbaatar*	*Tel: +(976)-70120522 Fax: +(976)-70120522*
Da-Khuree Settlement Center	*Trade center #3, Building of 'Da khuree" Co,Ltd, Shar had street, Khoroo #17, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976)-70151533*
Japan Town Settlement Center	*ICTower, Japan Town, Mahatma Gandhi street, Khoroo #1, Khan-Uul District, Ulaanbaatar*	*Tel: +(976)-70129703*
Zaisan Settlement Center	*Bileg #2 Building, Zaisan street, Khoroo #1, Khan-Uul District, Ulaanbaatar*	*Tel: +(976)-70110301*
Naiman sharga Settlement Center	*2nd floor, building of Vizard Gobi Co.,Ltd, Khoroo #2, Chingeltei district, Ulaanbaatar*	*Tel: +(976)-70115884*
Blue sky Settlement center	*1st floor, Building of Blue sky tower, Khoroo #1, Sukhbaatar district*	*Tel: +(976)-70141530*
Premier Banking Unit	*Bodi Tower, Sukhbaatar square #3, Ulaanbaatar*	*Tel: +(976)-70117676 ext: 1104 Fax: +(976-11)-326840*

SELF SERVICE BANKING

Name	***Address***
Self service banking #1	*1st floor, Moscow branch, Khoroolol #4, Khoroo #14, Bayangol district*
Self service banking #2	*1st floor, Building of Art center, Khoroo #1, Sukhbaatar district*
Self service banking #3	*1st floor, Solongo branch, Seoul street, Sukhbaatar district*

OFFICES IN AIMAGS

Name	Address	Contacts
Orkhon Branch	Amar Square, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70355100 Fax: +(976)-70355100
Orkhon-Pyramid Settlement center	Tod Jargal Company Building Sogoot Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70353789 Fax: +(976)-70353789
Orkhon-Loan Center	Orkhon-Chandmani Building, Uurkhaichin Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70357058
Darkhan Branch	Golomt Bank Office, Bag #13, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70373928 Fax: +(976)-70377136
Darkhan-Loan Center	Mandakh Bayasakh Building, Bag #8, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70375098 Fax: +(976)-70375098
Khovd Branch	The Bank of Mongolia Building, Tsambagarav bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432115 Fax: +(976)-70432195
Khovd-Bulgan Settlement Center	Burenkhairkhan Bag, Bulgan Soum, Khovd Aimag	Tel: +(976)-70432178
Khovd-Bayanburd Settlement Center	Bayanburd center, Jargalant bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432175 Fax: +(976)-70432175
Bayan-Ulgii Branch	Golomt Bank Office, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70442012
Tirlik Settlement Center	Armon Store, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70422008
Umnugobi Branch	Golomt Bank Office, Bag #3, Dalanzadgad City, Umnu-gobi Aimag	Tel: +(976)-70533990 Fax: +(976)-70533991
Oyu Tolgoi Settlement Center	"Oyu tolgoi" Camp, Khanbogd Soum, Umnugovi Aimag	Tel: +(976)-70117676 ext: 4440
Tsogttsetsii Settlement Center	#1-7, Yamaan Khuren Bag, Tsogttsetsii Soum, Umnu-Gobi Aimag	Tel: +(976)-70117676 ext: 4260
Khanbogd Settlement Center	Goyot 1-7 building, Khanbogd Soum, Umnu-Gobi Aimag	Tel: +(976)-70535148 Fax: +(976)-70535148
Gurvan Tes Settlement Center	Khurd Supermarket, Gurvan Tes Soum, Bag #4, Umnu-Gobi Aimag	Tel: +(976)-70536466
Dornod Branch	Dornod Business center, Bag #7, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582)-22703 Fax: +(976-01-582)-22702
Dornod-Kherlen Settlement Center	#24 Building, Bag #6, Kherlen Soum, Dornod Aimag	Tel: +(976)-70582704
Dornogobi Branch	Vanjildorj's Building, Bag #1, Sainshand Soum, Dornogobi Aimag	Tel: +(976)-70523177
Arshand Settlement Center	"Gan zam" Building, Bag #4, Sainshand Soum, Dornogovi Aimag	Tel: +(976)-0252242792
Zamiin-Uud Settlement Center	Zamiin Uud Railway Station, Bag #1, Zamiin-Uud Soum, Dornogobi Aimag	Tel: +(976-025-245)-43773 Fax: +(976-025-245)-43773
Sukhbaatar Settlement Center	Monos Center, Bag #7, Baruun-Urt Soum, Sukhbaatar Aimag	Tel: +(976)-70512006
Khuvsgul Branch	"Damdinsuren" Building, Bag #8, Murun Soum, Khuvsgul Aimag	Tel: +(976)-70388474 Fax: +(976)-70388474
Uvurkhangai Settlement Center	Oyu center, Bag #5, Gendeng District, Arvaikheer Soum, Uvurkhangai Aimag	Tel: +(976)-70322525
Selenge Settlement Center	Bayankhan Trade Center, Sukhbaatar Soum, Sukhbaatar Aimag	Tel: +(976)-70362318 Fax: +(976)-70362318
Bayankhongor Settlement Center	"Bayankhongor" department store, Bayankhongor Soum, Bayankhongor Aimag	Tel: +(976)-70444511 Fax: +(976)-70444522
Uvs Settlement Center	1st floor, of Ulaan sarnai Ltd Building, Bag #3, Ulaangom soum, Uvs province	Tel: +(976)-70454566

GOLOMT BANK

Committed to and Investing in Excellence

INDEPENDENT AUDITOR'S REPORT

GOLOMT BANK LLC and
ITS SUBSIDIARY

Consolidated Financial Statements
for the year ended 31 December 2012
and Report of Independent Auditors

BDO

GOLOMT BANK GROUP

GOLOMT BANK LLC AND ITS SUBSIDIARY
Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995. Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011.
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005. The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia. The Subsidiary holds the State Registration Certificate No. 9011287134 with registration No.5481589 newly granted to the Subsidiary by the State Registration Office of Mongolia on 02 November 2011. The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 02 November 2011 issued by the Financial Regulatory Commission of Mongolia.

Board of Governors	L. Boldkhuyag	Chairman (resigned on 05 Oct 2013)
	L. Boldkhuyag	Member (assigned on 05 Oct 2013)
	D. Bayasgalan	Chairman (resigned on 12 Dec 2012)
	M. Zorigt	Member (resigned on 12 Dec 2012)
	Marc N. Cutis	Member (resigned on 15 Apr 2013)
	Ch. Munkhtsetseg	Member (assigned on 12 Dec 2012)
	Z. Temuun	Member (assigned on 12 Dec 2012)
	J. Unenbat	Independent Member
	Urs E. Schwarzenbach	Member
	D. Munkhtur	Member (assigned on 12 Dec 2012)
Executive Officers	G. Ganbold	Chief Executive Officer
	D.Munkhtur	EVP, Chief Operating Officer
	M.Chimegmunkh	VP, Director of Financial Management Division
	L.Oyun-Erdene	VP, Director of Corporate Banking Division
	B.Enkhtuya	VP, Director of Retail Banking Division
	M.Chingun	VP, Director of Risk Management Division
	B.Zagal	VP, Director Investment Banking Division
	R.Batsuren	Director of Internal Audit Division
	N.Tserendavaa	Director of Information Technology Division
	B.Munkhbaatar	Director of Treasury Division
	T. Nyamsuren	Director of Credit Division
	Z.Khaidar	Director of E-banking Division
	N.Ochirkhuyag	Director of Marketing Department

GOLOMT BANK LLC AND ITS SUBSIDIARY
Corporate Information (continued)

Registered office	Golomt Bank Head Office of Golomt bank, Sukhbaatar Square, P.O.Box 22, Ulaanbaatar 15160, Mongolia
Auditors	BDO Audit LLC 10th Floor, AB Centre Building University Street 32/1, 6th Khoroo, 11th Sub-district, Sukhbaatar District, Ulaanbaatar, Mongolia

GOLOMT BANK GROUP

Statement of Management's Responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2012

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of the Directors of Golomt Bank LLC of Mongolia (the "Bank") and its subsidiary (together the "Group") and those of the independent auditor in relation to the Group's consolidated financial statements for the year ended 31 December 2012.

The Directors of the Group are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2012, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the consolidated financial statements, the Directors are responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting guidelines issued by the Central Bank of Mongolia and Ministry of Finance of Mongolia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Group's management the financial statements for the year ended 31 December 2012 were authorised for issue on 8th November 2013 by:

МОНГОЛ УЛС
ГОЛОМТ БАНК
ТТ51075 # 2075377
GOLOMT BANK

J.UNENBAT	**G. GANBOLD**	**M. CHIMEGMUNKH**
Representing the Board of Directors	Chief Executive Officer	Vice President, Director of Financial Management Division
Golomt Bank LLC	Golomt Bank LLC	Golomt Bank LLC

Date: 9th November 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GOLOMT BANK LLC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golomt Bank LLC of Mongolia (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Group are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated 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 Group'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 qualified audit opinion.

Basis of Qualification

We have conducted the audit on the financial statements of the Group for the year ended 31 December 2012 and the financial statements of the Group for the year ended 31 December 2011 were audited by another audit firm, whose audit report dated 14 March 2012 expressed unqualified opinion.

We were unable to access to the predecessor auditor's working papers to obtain sufficient and appropriate audit evidence concerning the opening balances of the financial statements for the year ended 31 December 2012. Hence it was not practicable for us to extend our audit procedures to satisfy ourselves as to the fair presentation of the accumulated profit brought forward at 1 January 2012.

GOLOMT BANK GROUP

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, except for the possible effects arising from the matter referred in the Basis for Qualification paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The Group has engaged an independent expert who carried out the investigation in relation with the certain letters of credit and guarantees, and issued a draft report dated 12 August 2013. During the course of our audit, we have assessed and adjusted the possible impacts of these issues described in this report, to the financial statements for the year ended 31 December 2012. However, we have not conducted audit and have not expressed opinion on compliance with local laws and regulation of these matters except for their effects to the accompanied financial statements.

Use of this report

This report is made solely to the shareholders of the Group, as a body, in Article 94 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.

BDO Audit LLC
Ulaanbaatar, Mongolia
Special License: 009-1997

БДО АУДИТ ХХК
AUDIT&ASSURANCE
BDO
VALUATION SERVICES
УЛААНБААТАР ХОТ
ТТН326 2546442

Date: 2013.11.08

Consolidated Statement of Financial Position as of 31 December 2012

	Note	Audited-(Group) At 31 Dec 2012 MNT'000	Restated-(Group) At 31 Dec 2011 MNT'000	Audited-(Bank) At 31 Dec 2012 MNT'000	Restated-(Bank) At 31 Dec 2011 MNT'000
ASSETS					
Cash and cash equivalents	**6**	186 730 836	95 317 841	186 730 836	95 317 841
Mandatory cash balances with the Bank of Mongolia	**7**	239 329 820	194 549 220	239 329 820	194 549 220
Financial assets at fair value through profit or loss	**8**	5 897 807	1 061 151	5 897 807	1 061 151
Due from other banks	**9**	214 670 056	221 882 444	214 670 056	221 882 444
Financial assets available for sale	**10**	1 778 566	2 758 940	1 778 566	2 758 940
Financial assets held to maturity	**11**	398 111 870	304 169 951	398 111 870	304 169 951
Reverse repurchase agreement	**12**	-	24 979 395	-	24 979 395
Intersts in subsidiary	**13**	-	-	200 000	100 000
Derivative financial instruments	**14**	3 220	-	3 220	-
Loans and advances to customers-net	**15**	1 427 922 400	1 249 340 888	1 427 922 400	1 249 340 888
Property, plant and equipment-net	**16**	36 357 551	30 524 082	36 328 350	30 524 082
Intangible assets-net	**17**	802 840	645 990	800 744	643 689
Investment properties-net	**18**	698 592	780 443	698 592	780 443
Foreclosed properties-net	**19**	-	-	-	-
Other assets	**20**	11 110 304	7 549 004	11 097 703	7 552 068
Deferred tax assets	**21**	3 913 089	1 022 525	3 913 089	1 022 525
TOTAL ASSETS		**2 527 326 951**	**2 134 581 874**	**2 527 483 053**	**2 134 682 637**
LIABILITIES AND EQUITY					
Liabilities					
Due to other banks	**22**	46 989 030	9 496 253	46 989 030	9 496 253
Customer accounts	**23**	2 056 530 371	1 839 222 798	2 056 581 113	1 839 324 288
Other borrowed funds	**24**	112 840 408	63 428 871	112 840 408	63 428 871
Subordinated loans	**25**	34 691 374	47 864 614	34 691 374	47 864 614
Derivative financial instruments	**26**	1 172 027	2 570 585	1 172 027	2 570 585
Contingent payables	**27**	2 215 362	91 375	2 215 362	91 375
Other liabilities	**28**	80 739 097	25 088 688	80 739 097	25 088 688
Deferred revenue	**29**	4 580 645	6 408 162	4 580 645	6 408 162
Tax payable	**30**	361 213	1 323 328	361 167	1 323 253
Total liabilities		**2 340 119 527**	**1 995 494 674**	**2 340 170 223**	**1 995 596 089**
Equity					
Share capital	**31**	25 907 593	24 591 543	25 907 593	24 591 543
Share premium	**31**	42 322 298	22 344 874	42 322 298	22 344 874
Other components of equity	**32**	2 088 203	5 742 519	2 075 756	5 742 519
Retained earnings	**33**	116 889 330	86 408 264	117 007 183	86 407 612
Total equity		**187 207 424**	**139 087 200**	**187 312 830**	**139 086 548**
Total liabilities and equity		**2 527 326 951**	**2 134 581 874**	**2 527 483 053**	**2 134 682 637**

GOLOMT BANK GROUP

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012

	Notes	Audited-(Group) 2012 MNT'000	Restated-(Group) 2011 MNT'000	Audited-(Bank) 2012 MNT'000	Restated-(Bank) 2011 MNT'000
Interest and similar income	**34**	200 245 015	165 165 129	200 245 015	165 165 129
Interest and similar expense	**35**	(143 124 972)	(116 238 119)	(143 127 131)	(116 239 704)
Net interest income		**57 120 043**	**48 927 010**	**57 117 884**	**48 925 425**
Provision for impairment of due from other banks and loans to customers	**36**	(8 666 060)	(6 233 060)	(8 666 060)	(6 233 060)
Net interest income after provision for impairment of due from other banks and loans to customers		**48 453 983**	**42 693 950**	**48 451 824**	**42 692 365**
Gains less losses arising from financial assets at fair value	**37**	4 760	19 877	4 760	19 877
Gains less losses arising from financial assets available for sale		(328 887)	(253 065)	(328 887)	(253 065)
Changes in fair value of embedded derivative		709 744	(1 063 189)	709 744	(1 063 189)
Gains less losses from dealing in foreign currency and precious metals	**38**	19 293 135	19 462 783	19 293 135	19 462 783
Gains less losses from revaluation of foreign currency and precious metals		(2 078 050)	930 689	(2 078 050)	930 689
Dividends received		6 776	4 901	6 776	4 901
Other operating income		189 931	131 708	189 969	131 708
Fee and commission income	**39**	19 980 330	14 029 915	19 969 184	14 029 915
Fee and commission expense	**40**	(4 937 631)	(3 760 654)	(4 935 586)	(3 760 654)
Impairment of financial assets available for sale	**41**	(1 040 666)	(2 340 179)	(1 040 666)	(2 340 179)
Provision for impairment of other assets, credit and non-credit related commitments	**42**	(2 123 987)	(91 375)	(2 123 987)	(91 375)
Operating income		**78 129 438**	**69 765 361**	**78 118 216**	**69 763 776**
Operating expenses	**43**	(45 548 463)	(32 515 908)	(45 418 952)	(32 515 133)
Profit before taxation		**32 580 975**	**37 249 453**	**32 699 264**	**37 248 643**
Income tax expense	**44**	(6 080 022)	(9 022 425)	(6 079 806)	(9 022 267)
Net profit		**26 500 953**	**28 227 028**	**26 619 458**	**28 226 376**
Other comprehensive income					
Net effect of revaluation of financial assets available for sale	**45**	(59 194)	560 342	(59 194)	560 342
Other comprehensive income after taxation		**(59 194)**	**560 342**	**(59 194)**	**520 870**
Total comprehensive income for the period		**26 441 759**	**28 787 370**	**26 560 264**	**28 747 246**
Basic earnings per share (MNT):	**46**	**1 097**	**1 279**	**1 101**	**1 279**
Diluted earnings per share (MNT):	**46**	**909**	**965**	**912**	**965**

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

Group	Share Capital	Share premium	Regulatory reserve	Share-based payment reserve	Available for sale reserve	Other reserve*	Retained earnings	Total equity
		MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Balance at 1 January 2011	**21,934,142**	**–**	**–**	**–**	**(297,935)**	**–**	**62,161,348**	**83,797,555**
Share issue	2,657,401	22,344,874	-	-	-	-	-	25,002,275
Profit for the year	-	-	-	-	-	-	28,227,028	28,227,028
Share-based payments (Note 47)	-	-	-	1,500,000	-	-	-	1,500,000
Transfer to regulatory reserve	-	-	3,980,112	-	-	-	(3,980,112)	-
Comprehensive income for the year 2011	-	-	-	-	560,342	-	-	560,342
								-
Balance at 31 December 2011 and 1 January 2012	**24,591,543**	**22,344,874**	**3,980,112**	**1,500,000**	**262,407**	**–**	**86,408,264**	**139,087,200**
Share issue	1,316,050	19,977,424	-	-	-	-	-	21,293,474
Profit for the year	-	-	-	-	-	-	26,500,954	26,500,954
Share-based payments (Note 47)	-	-	-	372,543	-	-	-	372,543
Transfer to regulatory reserve	-	-	(3,980,112)	-	-	-	3,980,112	-
Comprehensive income/(expense) for the year 2012	-	-	-	-	(59,194)	-	-	(59,194)
Risk reserve provision fund	-	-	-	-	-	12,447	-	12,447
Balance at 31 December 2012	**25,907,593**	**42,322,298**	**–**	**1,872,543**	**203,213**	**12,447**	**116,889,330**	**187,207,424**

* The amount represents the regulatory reserve of Golomt Security LLC, a subsidiary of the Bank, required by the Financial Regulatory Commission of Mongolia.

GOLOMT BANK GROUP

Consolidated Statement of Cash Flows for the year ended 31 December 2012

	Audited–(Group) 2012 MNT'000	Restated–(Group) 2011 MNT'000	Audited–(Bank) 2012 MNT'000	Restated–(Bank) 2011 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**32 580 975**	**37 249 453**	**32 699 264**	**37 248 643**
Adjustments for:-				
Accredited interest expenses	-	360 744	-	360 744
Changes in fair value of embedded derivatives	-	1 063 189	-	1 063 189
Changes in fair value of held-for-trading financial investment	106 865	253 065	106 865	253 065
Unrealised loss/(gain) in currency forward contact	-	5 749	-	5 749
Gain on disposal of property, plant and equipment	15 103	(14 889)	15 103	(14 889)
Unrealised foreign exchange (gain)/loss	2 078 050	(930 690)	2 078 050	(930 690)
Credit loss for loans and advances to customers	3 478 388	8 620 468	3 478 388	8 620 468
Credit loss for other assets	60 299	60 652	60 299	60 652
Impairment loss on available-for-sale investment	(1 398 558)	2 340 179	(1 398 558)	2 340 179
Depreciation of property, plant and equipment	3 910 318	2 649 241	3 903 885	2 649 241
Amortisation of intangible assets	563 622	575 057	562 309	574 950
Property, plant and equipment written off	-	9 403		9 403
Provision for loan loss	2 136 434	101 744	2 123 987	101 744
Impairment loss on foreclosed properties	110 063	1 219	110 063	1 219
Share-based option transaction expense	372 543	1 500 000	372 543	1 500 000
Operating profit before changes in operating assets and operating liabilities	**44 014 102**	**53 844 585**	**44 112 198**	**53 843 668**
Changes in operating assets:-	-	-		
Statutory deposits with Bank of Mongolia	(44 778 000)	(140 053 610)	(44 778 000)	(140 053 610)
Loans and advances to customers	(184 287 400)	(467 529 219)	(184 287 400)	(467 529 219)
Other assets	(18 514 531)	(2 571 629)	(18 502 129)	(2 571 429)
Changes in operating liabilities	-	-		
Due to banks	37 492 777	(71 605 166)	37 492 777	(71 605 166)
Due to customers	217 256 824	522 637 089	217 256 824	522 637 089
Other liabilities	55 647 146	13 166 665	55 650 410	13 163 400
Cash (used in)/generated from operations	**106 830 918**	**(92 111 285)**	**106 944 680**	**(92 115 267)**
Income tax paid	(9 932 700)	(9 513 028)	(9 932 455)	(9 512 945)
Net cash flows (used in)/generated from operating activities	**96 898 218**	**(101 624 313)**	**97 012 225**	**(101 628 212)**

Consolidated Statement of Cash Flows
for the year ended 31 December 2012

	Audited-(Group) 2012 MNT'000	Restated-(Group) 2011 MNT'000	Audited-(Bank) 2012 MNT'000	Restated-(Bank) 2011 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in a subsidiary	-	-	(100 000)	(100 000)
Purchase of financial investments	(163 008 617)	(51 742 097)	(163 008 617)	(51 742 097)
Proceeds from disposal and maturity of financial investments	133 758 342	5 198 473	133 758 342	5 198 473
Proceeds from disposal of property, plant and equipment	742 870	67 484	742 870	67 484
Purchase of property, plant and equipment	(10 419 909)	(6 672 676)	(10 384 275)	(6 672 676)
Purchase of repurchase and reverse repurchase agreements	(501 520 605)	(634 100 512)	(501 520 605)	(634 100 512)
Proceeds from maturity of repurchase and reverse agreements	526 500 000	634 100 512	526 500 000	634 100 512
Purchase of intangible assets	(720 472)	(115 854)	(719 364)	(113 446)
Net cash flows used in investing activities	**(14 668 391)**	**(53 264 670)**	**(14 731 649)**	**(53 362 262)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	21 293 474	25 002 275	21 293 474	25 002 275
Drawdown of borrowed funds	77 361 713	69 318 280	77 361 713	69 318 280
Repayment of borrowed funds	(27 908 508)	(34 577 405)	(27 908 508)	(34 577 405)
Net cash flows generated from/(used in) financing activities	**70 746 679**	**59 743 150**	**70 746 679**	**59 743 150**
Net (decrease)/increase in cash and cash equivalents	**152 976 506**	**(95 145 833)**	**153 027 255**	**(95 247 324)**
Cash and cash equivalents brought forward	495 877 858	691 071 501	495 776 367	691 071 501
Cash and cash equivalents carried forward (Note 52)	648 854 363	595 925 669	648 803 621	595 824 178

GOLOMT BANK GROUP

Notes to the Consolidated Financial Statements for the year ended 31 December 2012

1. REPORTING ENTITY

These consolidated financial statements comprise the financial statements of Golomt Bank ("the Bank") and Golomt Security LLC ("the subsidiary").

Golomt Bank as a wholly owned subsidiary of Bodi International LLC was incorporated in accordance with the decision of shareholders of Bodi International LLC dated in accordance with the legislation of Mongolia.

The Bank hold the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005.

The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.

In accordance with the effective Charter of the Bank, the Bank's principal activities include:
- Savings;
- Loan services;
- Card services;
- Guarantees and Letter of Credit;
- Money transfer;
- Sales, purchase, deposit and trading of foreign currencies;
- Sales, purchase, deposit and trading of precious metals;
- Foreign settlement and
- Issuance and trading of securities;
- Financial leasing service;
- Purchase and sales of loans and other financial instruments;
- Other financial services not restricted under the legislation and other activities accepted by the Central Bank other Government Agencies.

The Bank has granted the Special License No. for underwriting services from the Financial Regulatory Commission of Mongolia on 02 June 2011 in accordance with the resolution No.163 of Financial Regulatory Commission of Mongolia.

Below is the information on the Bank's main shareholders:

Shareholder	2012 Ownership (%)	2011 Ownership (%)
Bodi International Co.,Ltd	84.66%	89.19%
Swiss-Mo Investment A.G	10.16%	10.71%
Trafigura Beheer B.V	5.02%	0%
Shareholders owning less than 5% of the share capital	0.16%	0.10%
Total	**100%**	**100%**

The Group and the Bank is controlled by Bodi International LLC of Mongolia (holding 84.66% as at 31 December 2012), Swiss-Mo Investment A.G of (holding 10.16% as at 31 December 2012) and Trafigura Beheer B.V (2011: the Bank was actually controlled by Bodi International LLC of Mongolia with 89.19% interest and Swiss-Mo International LTD of with 10.71% interest).

The Bank has 93 branches in the Ulaanbaatar city and local area of Mongolia and had 1665 employees (2011: 1329 employees) including 13 key managers.

Subsidiary

Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011.

The Subsidiary granted State Registration Certificate No. 9011287134 with registration No.5481589 from the State Registration Office of Mongolia on 02 November 2011.

The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 02 November 2011 issued by the Financial Regulatory Commission of Mongolia.

The principal activities of the Subsidiary include:

- Brokerage service
- Dealer's service
- Financial and investment services

2. OPERATING ENVIRONMENT OF THE BANK / GROUP

2.1 General

The economy of Mongolia continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of the national currency in most countries outside of Mongolia and relatively high inflation rates. The Mongolian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Mongolia continues development of the legal, tax and administrative framework to comply with the market economy requirements. The economic reforms conducted by the Government are aimed at retooling the Mongolian economy, development of high-tech productions, and enhancement of labour productivity and competitiveness of the Mongolian products on the world market.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Mongolian financial and corporate sectors. Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses arising from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are.

The future economic direction of Mongolia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

2.2 Inflation

Mongolia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2012	14.00%
31 December 2011	10.20%
31 December 2010	13.00%
31 December 2009	4.20%
31 December 2008	22.10%

2.3 Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Mongolia. The table below shows exchange rates of MNT relative to USD and EUR as set by the Central Bank of Mongolia:

Date	USD	EUR
31-Dec-12	1,392.10	1,835.83
31-Dec-11	1,396.37	1,806.76
31-Dec-10	1,257.18	1,679.97
31-Dec-09	1,442.84	2,071.34
31-Dec-08	1,267.51	1,786.75

GOLOMT BANK GROUP

3. BASIS OF PRESENTATION

3.1 General principles

These consolidated financial statements of the Group and the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Group and the Bank maintains its accounting records in accordance with the applicable legislation of Mongolia. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

3.2 Functional and presentation currency

These consolidated financial statements are presented in Mongolian National Turgugs ("MNT"), being the Group's functional and presentation currency, and all values are rounded to the nearest thousands, except otherwise indicated.

3.3 Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require management's estimate and are most significant for the financial statements are disclosed in Notes 4, Summary of Significant Accounting Policies.

3.4 Going concern

These financial statements reflect the Group management's current assessment of the impact of the Mongolian business environment on the operations and the financial position of the Group. The future economic direction of Mongolia is largely dependent upon the effectiveness of measures undertaken by the Government and other factors, including regulatory and political developments which are beyond the Group's control. The Group's management cannot predict what impact these factors can have on the Group's financial position in future.

These financial statements were prepared on a going concern assumption. The Group's liquidity position described in Note 51 indicates that the Group has sufficient liquid assets to cover its current liabilities.

For prompt management of the liquidity risk the Group regularly monitors external factors, which could influence the Group's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Group analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Group sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Group and the Bank can attract additional funds from the Central Bank of Mongolia and in the interbank market. Diversification of liquidity sources allows to minimise the Group's dependence on any source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Group and the available sources of additional fund-raising allow the Group to continue its operations as a going concern on a long term basis.

3.5 Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which are or in the future could be relevant to the Group's operations:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" (applied prospectively for annual periods beginning on or after 1 July 2011). The amendments require additional disclosure of risks arising from the transfer of financial assets. The amendments comprise a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Besides, disclosure is required enabling the user to understand the size of a financial liability related to the asset and the relationship between a financial asset and the related financial liability. In cases when an asset is ceased to be recognised, but the entity remains to be exposed to certain risks and can receive certain benefits related to the transferred asset, additional disclosure is required to enable the user to understand the risk level.
- Amendments to IAS 12 "Income Taxes" (issued in December 2010, effective for annual periods beginning on or after 1 January 2012) introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 "Investment Property" should be determined on the basis that its carrying amount will be recovered through sale. Also, IAS 12 was supplemented with a requirement that deferred tax on

non-depreciable assets measured using the revaluation model in IAS 16 "Property, Plant and Equipment" should always be measured on a sale basis.

3.6 IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 27 "Separate Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). This standard and IFRS 10 "Consolidated Financial Statements" supersede IAS 27 "Consolidated and Separate Financial Statements" (as amended in 2003). IAS 27 clarifies transition requirements regarding changes in IAS 21, 28 and 31 caused by revision of IAS 27 (as amended in January 2008). IAS 27 sets out requirements for accounting for and disclosure of information about an entity's investments in subsidiaries, joint ventures and associates when preparing separate financial statements.

- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual reporting periods beginning on or after 1 January 2013). This standard is a revised version of IAS 28 "Investments in Associates" (as amended in 2003) and sets out requirements for the application of the equity method when accounting for investments in associates and joint ventures.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013; however, the date can be postponed to 1 January 2015; early adoption is permitted). This standard was issued in November 2009 as the first phase of replacing IAS 39 and replaces those parts of IAS 39 that relate to classification and measurement of financial assets. The second phase of replacing this standard regarding the classification and measurement of financial liabilities took place in October 2010. The main differences of the new standard are as follows:
  - financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
  - a financial instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
  - all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- IFRS 10 "Consolidated Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". IFRS 10 introduces a unified three-level control model: the investor can have control provided that the three criteria are met:
  - (a) the investor has power over the investee;
  - (b) the investor is exposed or has rights to variable returns from its involvement with that investee;
  - (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

- IFRS 11 "Joint Arrangements" (applied retrospectively to annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 relates to the classification of all types of joint arrangements into joint operations, which are accounted for on a proportionate consolidation basis, or joint ventures, for which the equity method is used. The type of joint arrangement is determined based on rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. Early adoption of IFRS 11 is permitted provided an entity also early adopts IFRS 10, IFRS 12, IAS 27 and IAS 28 (as amended in 2011).

3. BASIS OF PRESENTATION (continued)

3.6 IFRSs and IFRIC Interpretations not yet effective (continued)

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual reporting periods beginning on or after 1 January 2013). The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests in another entity are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Amended and new requirements for disclosing information aim to provide the users of financial statements with information that would enable them to assess the nature of the risks related to the entity's interests in other entities and the effect of those interests on the entity's financial position, financial performance and cash flows. To comply with the new requirements the entity should disclose significant judgments and assumptions made in determining the nature of its interest in another entity or arrangement and in determining the type of joint arrangement in which it has an interest, as well as information on its involvement in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In case of full early adoption of IFRS 12 it is also necessary to adopt IFRS 10, IFRS 11, IAS 27, and IAS 28 (as amended in 2011).

- IFRS 13 "Fair Value Measurement" (applied prospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The new standard replaces fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurement. IFRS 13 does not introduce new requirements for measurement of assets and liabilities at fair value nor does it eliminate the exceptions to fair value measurement currently applicable to certain standards.

- Amendment to IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" (applied retrospectively for annual periods beginning from 1 July 2012; early application is permitted). The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to 'statement of profit or loss and other comprehensive income' (the use of other wording in the title is permitted).

- Amendment to IAS 19 "Employee Benefits" (applied retrospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also makes significant changes to disclosures for all employee benefits.

- Amendment to IFRS 7 "Financial Instruments-Disclosures" (amendments are applied retrospectively to annual reporting periods effective since January 2013). This amendment requires a disclosure which will enable the financial statement users to assess the effect or potential effect of netting arrangements, including the rights to offset.

- Amendments to IAS 32 "Financial Instruments-Disclosures" (amendments are applied retrospectively to annual reporting periods effective since January 2013). These amendments introduce guidance for application of IAS 32 in order to remove inconsistencies in the application of some of the offsetting criteria. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

The Group is currently assessing the adoption of these IFRS and amendments, the impact of their application on the Group and the timing of their adoption.

3.7 Subsidiaries

Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over their financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intragroup transactions, balances and unrealised gains on such transactions are fully eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group.

In 2011 the Bank set up a subsidiary Golomt Securities LLC. The following subsidiaries were included in the consolidated financial statements as at 31 December 2012 and 31 December 2011:

			Total investments	
Subsidiary	**Nature of business**	**Ownership, (%)**	**31 Dec 2012**	**31 Dec 2011**
			MNT'000	**MNT'000**
Golomt Securities LLC	Brokerage and Dealer	100 %	200,000	100,000

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies were adopted in preparation of these consolidated financial statements of the Group and the Bank:

4.1 Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, balances on correspondent and current accounts of the Group, overnight deposits, cash deposits with other commercial banks and cash on broker accounts. All short-term interbank placements (other than overnight deposits) are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents exclude mandatory cash balances with the Central Bank of Mongolia.

4.2 Mandatory cash balances with the Central Bank of Mongolia

Mandatory cash balances with the Central Bank of Mongolia represent mandatory reserve deposits with Central Bank of Mongolia, which are not available to finance the Group's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

4.3 Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- investments held to maturity;
- financial assets available for sale.

The Group determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

(i) Initial recognition of financial assets

The Group recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset in the case of a financial asset not at fair value through profit or loss.

(ii) Fair value measurement

The fair value of financial instruments traded on the active market at the end of the reporting period is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated on the basis of market quotations for similar financial instruments or using various valuation techniques, including mathematic models. Inputs for such models are based on observable market data or judgement. Judgement is based on the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets (continued)

(iii) Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments.

(iv) Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(v) Reclassification of financial assets

The Group shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Financial assets available for sale may be reclassified into loans and receivables if the Group has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets. Subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as financial assets available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in the statement of comprehensive income as other comprehensive income.

The Group shall not classify any financial assets as investments held to maturity if the Group has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as available for sale.

(vi) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities and other financial assets at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category except for rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are recognised at fair value. Interest earned on trading securities is reflected as interest income in the consolidated statement of income. Dividends are recognised in the consolidated statement of income as dividends received when the Group's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of income as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

Derivative financial instruments including futures, currency exchange contracts and interest rate swaps with positive fair value other than derivative instruments designated and effective as hedges are initially recorded in the statement of financial position as other assets at cost (including transaction costs) and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or using the spot rate at the year-end as the basis depending on the type of transaction.

Changes in the fair value of derivative financial instruments are included in gains less losses arising from financial assets at fair value through profit or loss or in gains less losses from dealing in foreign currency or precious metals depending on the type of transaction.

Other financial assets at fair value through profit or loss include securities that were initially classified in this category provided one of the following criteria was met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets and recognising gains and losses on them on a different basis; or
- a group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and investment strategy and information about this basis is regularly disclosed and revised by the Group's management.

Recognition and measurement of financial assets designated in this category is in compliance with the accounting policies in respect of trading securities presented above.

4.4 Due from other banks

In the normal course of business, the Group places funds for various periods of time with other banks. Amounts due from other banks with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity. Due from other banks are carried net of any allowance for impairment.

GOLOMT BANK GROUP

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.
Loans to customers are recorded when cash is advanced to borrowers.

Loans to customers originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of comprehensive income as gains /losses on origination of assets at rates above/below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of gain or loss on the loan issued and the related gains/ losses are recorded within the statement of comprehensive income using the effective interest method.

4.6 Investments held to maturity

This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The Group's management determines the appropriate classification of financial assets at the time of purchase.

The Group assesses its intention and ability to hold its held-to-maturity financial assets to maturity not only when those financial assets are initially recognised, but also on each closing date.
Initially, investments held to maturity are recorded at fair value (which includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on investments held to maturity are recognised in the statement of comprehensive income when such assets are impaired, as well as through the amortisation process.

If the Group sells a significant portion of its portfolio of investments held to maturity before their maturity the remaining financial assets from this category shall be reclassified as financial assets available for sale.
Interest earned on investments held to maturity is recognised in the statement of comprehensive income as interest income.

4.7 Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included into any of the above categories.

Financial assets available for sale are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of similar financial assets to unrelated third parties or determined on the basis of indicative quotations for purchase/sale of each type of securities published by information agencies or provided by professional securities market participants. If there is no active market and it is impossible to determine the fair value of equity securities using reliable methods, investments are recognised at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the statement of comprehensive income as other comprehensive income. When financial assets available for sale are disposed of, the related accumulated unrealised gains and losses previously recognised as other comprehensive income are reclassified to the statement of comprehensive income as gains less losses arising from financial assets available for sale. Disposals of financial assets available for sale are recorded using the FIFO method.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of comprehensive income as interest income. Dividends received on equity investments available for sale are recorded in the statement of comprehensive income when the Group's right to receive dividends is established and dividends are likely to be received.

4.8 Promissory notes purchased

Promissory notes purchased are included in financial assets available for sale, investments held to maturity, due from other banks or loans to customers, depending on their economic substance and are subsequently accounted for in accordance with the accounting policies for these categories of assets.

4.9 Impairment of financial assets

The Group assesses on the closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(i) Impairment of due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data about the following events in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Group's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

4.9 Impairment of financial assets (continued)

(i) Impairment of due from other banks and loans to customers

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 expected future cash flows. The carrying amount of the asset is reduced through the use of the impairment provision account and the amount of the loss is recognised in the statement of comprehensive income.

For determination of the present value, the estimated future cash flows are discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the statement of comprehensive income.
Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying amount of impaired financial assets is not reduced directly.

In accordance with the Mongolian legislation, in case of a write-off of the uncollectible loan and relating interest, the Group shall take necessary and adequate steps, envisaged by law, standard business practice or agreement, to collect this outstanding loan.

(ii) Impairment of investments held to maturity

The Group assesses whether objective evidence of impairment exists individually for investments held to maturity. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If, in the next year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as income in the statement of comprehensive income.

(iii) Impairment of financial assets available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence of impairment would include significant financial difficulty of the issuer supported by available information. To assess whether there is any indication of impairment the Group shall analyse the issuer's activities taking into account the influence of economic factors, including consequences of changes in the technical, market, economic or legal environment in which the issuer operates. The Group also assesses other factors such as volatility of price per share.

Cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised through the profit and loss accounts, is transferred from other comprehensive income to the profit and loss accounts.

Impairment losses on equity instruments are not reversed through the profit and loss account: increases in the fair value after impairment are recognised directly in other comprehensive income.

In case of unquoted debt instruments not carried at fair value, classified as available for sale, impairment is assessed based on the same criteria as those for financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within interest income in the statement of comprehensive income.

If in the subsequent year the fair value of a debt instrument increases, and such increase can be objectively related to the event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed and the related recovery is recorded in the statement of comprehensive income.

4.10 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Group at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

4.11 Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued and other borrowed funds.

Due to other banks. Due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks.
Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.
Debt securities issued. Debt securities issued include promissory notes issued by the Group. If the Group purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt.
Other borrowed funds. Other borrowed funds include subordinated loans received by the Group and are recorded as cash is advanced to the Group.

4.12 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repo” agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised, and the securities are not reclassified. The corresponding liability is presented within due to other banks or customer accounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Repurchase and reverse repurchase agreements (continued)

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income in the statement of comprehensive income and accrued over the life of repo agreements using the effective interest rate method.

Securities lent by the Group to counterparties continue as a loan for fixed compensation to be recognised in the Group's financial statements as securities. Securities borrowed for fixed compensation are not recorded in the Group's financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the statement of comprehensive income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

4.13 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.14 Premises and equipment

Premises and equipment are stated at cost or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each closing date the Group assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of comprehensive income.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of comprehensive income.
Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Buildings – 480 months;
- Motor vehicles – 120 months;
- Equipment and computers – from 36 months to 120 months;
- Furniture – 120 months.

Land has an indefinite useful life and is not depreciated.

At the end of the service life, the residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

4.15 Investment properties

Investment properties are stated at cost less accumulated depreciation. The cost of an investment property comprises its purchase price and directly attributable cost incurred. Investment properties are depreciated on a straight line basis over a period of 10 years.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment losses.

The Group adopted the cost model in measuring its investment property, hence, is carried at cost less accumulated depreciation and any impairment in value.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

4.16 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognised if:

- the asset is expected to generate future economic benefits for the Group;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability.

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 lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

4.17 Operating leases

Operating lease – the Group as lessee
Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of comprehensive income.

Operating lease – the Group as lessor
The Group presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

4.18 Share capital

Ordinary shares and non-cumulative, non-redeemable preference shares are classified as share capital. The share capital is stated at original cost. Non-monetary contributions to the share capital are recorded at fair value of contributed assets at the date the contributions are made.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

4.20 Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the end of the reporting period only if they are declared before or on the reporting date. Information on dividends which are declared after the reporting date is disclosed in the subsequent events note. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

After approval of dividends by the General Shareholders' Meeting they are recognised in the financial statements as distributed profits.

4.21 Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

4.22 Credit related commitments

The Group enters into credit related commitments, including guarantees and commitments to extend credits. Guarantees represent irrevocable assurances of the Group to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Credit related commitments are initially recognised at their fair value. Subsequently, they are analysed at the end of each reporting period and adjusted to reflect the current best estimate. The best estimate of the expenditure required to settle the present obligation is the amount that the Group would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

4.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4.24 Taxation

The income tax charge/recovery comprises current tax and deferred tax and is recorded in the statement of comprehensive income except if it is recorded directly in other comprehensive income because it relates to transactions that are also recorded directly in other comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of Mongolia. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.
Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and deferred taxes refer to the same tax authority. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgement is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Mongolia also has various other taxes, which are assessed on the Group's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

4.25 Employee benefits and social contributions

(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 Group and the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred. The Group and the Bank also contribute to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Group and the Bank.

4.26 Income and expense recognition

(i) Interest and similar income and expense

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The ***effective interest method*** is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The ***effective interest rate*** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(ii) Fee and commission income

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.27 Foreign currency and precious metals

Foreign currency transactions are initially translated into the functional currency at the CBoM exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the CBoM exchange rate ruling at the end of the reporting period. Foreign exchange gains and losses resulting from revaluation of transactions in foreign currency and precious metals are recorded in the statement of comprehensive income within gains less losses from revaluation of foreign currency and precious metals. Non-monetary items denominated in foreign currency and carried at cost are restated at the CBoM exchange rate in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gold, silver and other precious metals are recorded at current bid prices set by the CBoM. Changes in CBoM bid prices are recorded as translation differences within gains less losses from revaluation of foreign currency and precious metals in the statement of comprehensive income. Precious metals are recorded within other assets.

Gains and losses on purchase and sale of foreign currency and precious metals are determined as the difference between the selling price and the carrying amount at the date of the transaction.

4.28 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group shall report separately in its consolidated financial statements information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
  - the combined reported profit of all operating segments that did not report a loss in the reporting period; and
  - the combined reported loss of all operating segments that reported a loss in the reporting period;
- its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the consolidated financial statements.

As the information is available from management reporting and can differ from the IFRS financial statements, reconciliations shall be made and reasons disclosed. All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the Group's profit or loss arising from different accounting policies shall be separately identified and described.

5. SEGMENT REPORTING

The Group has the following four main business segments:

Retail banking	Individual customers' deposits and consumer loans, overdrafts, credit card facilities and funds transfer facilities
Corporate banking	Loans and other credit facilities and deposit and current accounts for corporate and institutional customers
Investment banking	Investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading
Treasury	Treasury and finance and other central functions
Brokerage and dealer	Brokerage and dealer services in capital market

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group and the Bank's total revenue in 2012 or 2011.

Segment information on the Group's main business segments for the year ended 31 December 2012 is given in the table below:

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2012.

	Corporate Banking	**Retail banking**	**Investment Banking**	**Treasury**	**Unallocated**	**Total Bank**
	2012	**2012**	**2012**	**2012**	**2012**	**2012**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Third party	97,045,531	(36,798,389)	12,307	28,660,036	-	88,919,485
Inter-segment	(70,948,198)	86,521,658	-	(15,573,460)		-
Total operating income	**26,097,333**	**49,723,269**	**12,307**	**13,086,576**	**–**	**88,919,485**
Credit loss expenses	(7,574,826)	(3,186,125)	-	(29,096)	-	(10,790,047)
Impairment loss on financial investment	-	-	-	-	-	-
Net operating income	**18,522,507**	**46,537,144**	**12,307**	**13,057,480**	**–**	**78,129,438**
Results						
Interest and similar income	93,656,610	72,761,010	-	33,827,395	-	200,245,015
Interest and similar expense	(71,889,930)	(43,783,865)	-	(27,451,177)	-	(143,124,972)
Net interest income	21,766,680	28,977,145	-	6,376,218	-	57,120,043
Fee and commission income	4,257,716	10,228,033	27,534	5,467,047	-	19,980,330
Fee and commission expense	(1,564)	(807,411)	(15,284)	(4,113,372)	-	(4,937,631)
Net fees and commission income	4,256,152	9,420,622	12,250	1,353,675	-	15,042,699
Credit loss expense	(7,574,825)	(3,186,125)	-	(29,096)	-	(10,790,046)
Foreign exchange and other gain/(loss)	74,501	11,325,541	57	4,774,320	-	16,174,419
Net trading income/(loss)	-	-	-	385,618	-	385,618
Depreciation of property and equipment	(370,670)	(2,893,269)	(6,719)	(154,198)	(382,056)	(3,806,912)
Amortization of intangible assets	(164,087)	(418,789)	(50)	(65,520)	(10,837)	(659,283)
Operating expense	(5,247,330)	(31,186,231)	(252,263)	(4,396,444)	-	(41,082,268)
Other operating income	-	-	-	196,707	-	196,707
Segment profit (loss)	**12,740,419**	**12,038,894**	**(246,725)**	**8,441,280**	**(392,892)**	**32,580,975**
Income tax expense						(6,080,022)
Profit for the year						**26,500,953**
Assets						
Capital expenditures						
Property and equipment	58,207	7,632,413	4,395	24,890	2,589,495	10,309,400
Other intangible assets	-	379,022	-	-	719,364	1,098,386
Total assets	**970,634,104**	**583,872,806**	**456,108**	**818,074,828**	**154,289,105**	**2,527,326,951**
Total liabilities	**954,492,025**	**564,501,188**	**702,926**	**813,672,450**	**6,750,938**	**2,340,119,527**

GOLOMT BANK GROUP

5. SEGMENT REPORTING (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2011.

	Corporate Banking	Retail banking	Investment Banking	Treasury	Unallocated	Total Bank
	2011	2011	2011	2011	2011	2011
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Third party	35,363,899	370,412	241,668	42,362,621	-	78,338,600
Inter-segment	(9,961,029)	37,666,562	-	(27,705,533)	-	-
Total operating income	**25,402,870**	**38,036,974**	**241,668**	**14,657,088**	**–**	**78,338,600**
Credit loss expenses	(1,928,279)	(4,304,781)	-	-	-	(6,233,060)
Impairment loss on financial investment	-	-	-	(2,340,179)	-	(2,340,179)
Net operating income	**23,474,591**	**33,732,193**	**241,668**	**12,316,909**	**–**	**69,765,361**
Results						
Interest and similar income	62,587,877	62,747,220	235,161	40,024,083	-	165,594,341
Interest and similar expense	(39,353,724)	(43,873,235)	(48,329)	(33,392,043)	-	(116,667,331)
Net interest income	23,234,153	18,873,985	186,832	6,632,040	-	48,927,010
Fee and commission income	2,146,481	7,543,588	56,277	4,283,569	-	14,029,915
Fee and commission expense	(3,064)	(852,884)	(1,439)	(2,903,267)	-	(3,760,654)
Net fees and commission income	2,143,417	6,690,704	54,838	1,380,302	-	10,269,261
Credit loss expense	(1,928,279)	(4,304,781)	-	-	-	(6,233,060)
Foreign exchange and other gain/(loss)	25,300	12,472,284		5,464,334		17,961,918
Net trading income/(loss)	-	-	-	(1,296,377)	-	(1,296,377)
Depreciation of property and equipment	(296,758)	(2,010,130)	(1,822)	(138,878)	(201,652)	(2,649,241)
Amortization of intangible assets	(112,001)	(238,295)	(86)	(74,182)	(150,385)	(574,950)
Operating expense	(6,549,160)	(19,292,854)	(207,441)	(3,242,262)	-	(29,291,717)
Other operating income	-	-	-	136,609	-	136,609
Segment profit (loss)	**16,516,671**	**12,190,914**	**32,319**	**8,861,587**	**(352,038)**	**37,249,453**
Income tax expense						(9,022,425)
Profit for the year						**28,227,028**
Assets						
Capital expenditures						
Property and equipment	9,402	3,323,314	5,848	5,977	1,623,565	4,968,107
Other intangible assets	-	-	-	-	113,446	113,446
Total assets	**733,632,184**	**602,967,008**	**491,894**	**766,065,709**	**31,425,078**	**2,134,581,874**
Total liabilities	**762,352,458**	**509,125,206**	**497,235**	**718,302,826**	**5,216,949**	**1,995,494,674**

6. CASH AND CASH EQUIVALENTS

	At 31 Dec 2012	At 31 Dec 2011
	MNT'000	MNT'000
Cash on hand	98,334,103	89,417,750
Cash deposits with the Bank of Mongolia	327,726,553	200,449,311
Less: Minimum reserve with The Bank of Mongolia not available to finance the Group and the Bank's day to day operations	(239,329,820)	(194,549,220)
	186,730,836	**95,317,841**

7. MANDATORY CASH BALANCES WITH THE BANK OF MONGOLIA

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Mandatory cash balances with the Bank of Mongolia	239,329,820	194,549,220

Current accounts with the Bank of Mongolia are maintained in accordance with the Bank of Mongolia's regulations. The balances maintained with the Bank of Mongolia are determined at not less than 12.0% (2011: 11.0 %) of customer deposits for periods of 2 weeks. As at 31 December 2012, the average reserve required by The Bank of Mongolia for that period of 2 weeks was MNT 133,384 million (2011: MNT 117,466 million) for local currency and MNT 105,945 million (2011: MNT 77,084 million) for foreign currency both maintained on current accounts with the Bank of Mongolia.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss reflected in the consolidated statement of financial position as at 31 December 2012 and 31 December 2011 include trading securities

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Quoted securities	5,897,807	1,061,151

Quoted available-for-sale and held-for-trading debt securities represent investments in several equities quoted on the Mongolia Stock Exchange and Hong Kong Stock Exchange. Quoted held-to-maturity debt security represents investment in Trade and Development Bank Bond quoted on the Singapore Exchange Securities Trading Limited.

Below is the information on changes in the portfolio of financial assets at fair value through profit and loss during the years ended 31 December 2012 and 2011:

	2012 MNT'000	2011 MNT'000
Carrying value as at 1 January	**1,235,916**	**267,389**
Impairment provision / recovery of provision	(174,765)	78,083
Fair value as at 1 January	**1,061,151**	**345,472**
Reclassification to held for trading	-	254,767
Acquisitions	5,736,943	868,966
Disposal	(724,412)	
Effect of exchange rate changes	205,966	(155,206)
Carrying value as at 31 December	**6,454,413**	**1,235,916**
Impairment provision / recovery of provision	(556,606)	(174,765)
Fair value as at 31 December	**5,897,807**	**1,061,151**

9. DUE FROM OTHER BANKS

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Current account balances-domestic banks	11,096,853	1,043,177
Current account balances-foreign banks	203,536,118	175,109,583
Savings- domestic banks	30,308	1,001,667
Savings- foreign banks	-	44,574,171
Other	6,777	153,846
	214,670,056	**221,882,444**

GOLOMT BANK GROUP

10. FINANCIAL ASSETS AVAILABLE FOR SALE

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Unquoted equities, at cost	679,271	642,922
Quoted security, at fair value	1,099,295	2,116,018
	1,778,566	**2,758,940**

Below is the information on changes in the portfolio of financial assets available for sale during the years ended 31 December 2012 and 2011:

	2012 MNT'000	2011 MNT'000
Quoted	4,341,912	4,190,463
Unquoted	642,922	3,712,922
Carrying value as at 1 January:	**4,984,834**	**7,903,385**
Fair value adjustment	(2,225,894)	(446,055)
Fair value as at 1 January	**2,758,940**	**7,457,330**
Additions:		
Unquoted	33,700	130,000
Quoted	86,203	-
Total acquisitions	**119,903**	**130,000**
Effect of exchange difference	(417)	405,014
Disposal:		
Quoted	-	(253,566)
Unquoted	-	(3,200,000)
Total disposals	**–**	**(3,453,566)**
Carrying value as at 31 December	**5,104,319**	**4,984,833**
Fair value adjustment	(3,325,753)	(2,225,893)
Fair value as at 31 December	**1,778,566**	**2,758,940**

11. FINANCIAL ASSETS HELD TO MATURITY

		At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Treasury bills of the Bank of Mongolia	(a)	247,402,728	178,576,862
Government bonds	(b)	72,554,598	50,846,777
Quoted debt security	(c)	2,784,250	2,738,152
Promissory notes	(d)	75,370,294	72,008,160
		398,111,870	**304,169,951**

(a) Treasury bills of the Bank of Mongolia ("the BOM")

The Bank of Mongolia central bank and treasury bills ("BOM bills") are interest bearing short-term bills issued at a discount. Below is the information on changes in treasury bills of BOM during the years ended 31 December 2012 and 2011:

	2012	2011
	MNT'000	**MNT'000**
Carrying value as at 1 January	**181,640,000**	**355,500,000**
Fair value adjustment	(3,063,138)	(1,883,918)
Fair value as at 1 January	**178,576,862**	**353,616,082**
Acquisitions	2,262,267,000	9,310,732,000
Disposals	(2,193,907,000)	(9,484,592,000)
Carrying value as at 31 December	**250,000,000**	**181,640,000**
Fair value adjustment	(2,597,272)	(3,063,138)
Fair value as at 31 December	**247,402,728**	**178,576,862**

(b) Government bonds

Government bonds are issued by the Ministry of Finance with maturities of less than 7 years, and issued at a discount. Below is the information on changes in Government bonds during the years ended 31 December 2012 and 2011:

	2012	2011
	MNT'000	**MNT'000**
Carrying value as at 1 January	**49,280,000**	**2,000,000**
Accrued interest income	1,566,777	42,400
Fair value as at 1 January	**50,846,777**	**2,042,400**
Acquisitions	48,765,000	49,280,000
Disposal	(24,500,000)	(2,000,000)
Accrued interest income	718,976	1,566,777
Carrying value as at 31 December	**73,545,000**	**49,280,000**
Fair value adjustment	(1,709,378)	-
Fair value as at 31 December	**72,554,598**	**50,846,777**

(c) Quoted debt securities

Quoted held-to-maturity debt security represents investment in Trade and Development Bank Bond listed on the Singapore Exchange Securities Trading Limited. Below is the information on changes in quoted debt security portfolio during the years ended 31 December 2012 and 2011:

	2012	2011
	MNT'000	**MNT'000**
Carrying value as at 1 January	**2,792,740**	**–**
Accrued interest income	44,104	-
Fair value adjustment	(98,692)	-
Fair value as at 1 January	**2,738,152**	**–**
Acquisitions	-	2,576,040
Effect of exchange rate changes	(8,540)	216,700
Accrued interest income	44,210	44,104
Carrying value as at 31 December	**2,828,410**	**2,836,844**
Fair value adjustment	(44,160)	(98,692)
Fair value as at 31 December	**2,784,250**	**2,738,152**

GOLOMT BANK GROUP

11. FINANCIAL ASSETS HELD TO MATURITY (continued)

(d) Promissory notes

	2012 MNT'000	2011 MNT'000
Carrying value as at 1 January	**72,062,060**	**–**
Accrued interest income	87,599	-
Fair value adjustment	(141,498)	-
Fair value as at 1 January	**72,008,161**	**–**
Acquisitions:		
Discount notes	-	9,878,080
Interest-bearing notes	106,094,914	60,801,100
	106,094,914	**70,679,180**
Disposals		
Discount notes	(10,996,508)	-
Interest-bearing notes	(98,460,200)	-
	(109,456,708)	**–**
Effect of exchange rate changes	192,548	-
Carrying value as at 31 December	**68,892,814**	**72,062,060**
Accrued interest income	6,477,479	87,599
Fair value adjustment	-	(141,498)
Fair value as at 31 December	**75,370,293**	**72,008,161**

12. REVERSE REPURCHASE AGREEMENT

In 2011, as part of the reverse repurchase agreement, the Bank received the bills of the Bank of Mongolia amounting to approximately MNT 25 billion. The bills bore a term of 3 to 5 days and matured on 2 January 2012 and 4 January 2012, respectively. The fair value of the bills approximated their carrying amount as at 31 December 2011. There is no outstanding reverse repurchase agreement as at 31 December 2012.

13. INTERESTS IN SUBSIDIARY

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Unquoted share, at cost	**200,000**	**100,000**

The amount represents the interests at 100 percent in Golomt Security LLC, a Company incorporated in Mongolia to operate in field of brokerage and dealing.

14. DERVATIVE FINANCIAL INSTRUMENT

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Assets		
- Derivative held for trading - forward foreign currency exchange contract	3,220	-
Liabilities		
- Derivative held for trading - forward foreign currency exchange contract	-	1,264
- Equity and currency derivatives	1,172,027	2,569,321
	1,172,027	**2,570,585**
	1,168,807	**2,570,585**

15. LOANS AND ADVANCES TO CUSTOMERS – NET

	At 31 Dec 2012	At 31 Dec 2011
	MNT'000	MNT'000
Corporate loans	754,920,977	719,650,807
Loans to small and medium business	301,498,666	214,880,293
Consumer loans to individuals	130,739,347	126,569,077
Mortgage loans to individuals	248,220,122	192,879,827
	1,435,379,112	1,253,980,004
Add: Accrued interest receivables	18,492,530	12,915,190
Less: Provision for impairment of loans to customers	(25,949,242)	(17,554,306)
Total loans to customers	**1,427,922,400**	**1,249,340,888**

As at 31 December 2012, accrued interest income on impaired loans amounted to MNT12,049,228 thousand (2011: MNT7,231,500 thousand).

In September 2012, the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate mortgage loans to Mongolian Mortgage Corporation but provided guarantees of the performance of the loans. The Bank has determined that substantially all the risks and rewards of the portfolio were retained and, consequently, the loans were not derecognised. The Bank accounted for the transaction as a collateralised borrowing and recorded the cash received as a financial liability. The carrying amount of the transferred loan portfolio as at 31 December 2012 was MNT 1,863 million and that of the liability was MNT 1,864 million.

Movements in the provision for impairment of loans to customers during 2012 and 2011 are as follows:

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Provision for impairment of loans to customers as at 1 January 2011	**6,696,841**	**2,353,077**	**756,209**	**411,492**	**10,217,619**
Provision/(recovery of provision) for impairment during 2011	2,878,574	5,332,301	(678,876)	(195,312)	7,336,687
Provision for impairment of loans to customers as at31 December 2011	**9,575,415**	**7,685,378**	**77,333**	**216,180**	**17,554,306**
Provision/(recovery of provision) for impairment during 2012	7,360,575	844,038	268,573	57,713	8,530,899
Loans to customers written off during the year as uncollectible	-	(81,158)	(54,806)	-	(135,964)
Provision for impairment of loans to customers as at 31 December 2012	**16,935,990**	**8,448,258**	**291,100**	**273,893**	**25,949,241**

In 2012 the uncollectible debt under loan agreements in the amount of MNT135,964 thousand (2011: MNT0.00) was written off in accordance with the decision of the Executive Director dated 03 September 2012 and 28 December 2012.

GOLOMT BANK GROUP

15. LOANS AND ADVANCES TO CUSTOMERS – NET (continued)

Economic sector concentrations within the Group's loan portfolio are as follows:

	At 31 Dec 2012		At 31 Dec 2011	
	MNT'000	%	MNT'000	%
Agriculture	17,652,584	1.23%	24,483,203	1.95%
Mining & Exploration	147,034,059	10.24%	167,655,687	13.37%
Manufacturing	124,892,340	8.70%	121,208,861	9.67%
Electricity & Oil	130,976,578	9.12%	70,088,410	5.59%
Construction	138,187,750	9.63%	69,594,516	5.55%
Infrastructure	23,924,755	1.67%	40,417,072	3.22%
Trade - Whole & Ret.	147,815,956	10.30%	120,537,264	9.61%
Maintenance	15,539,355	1.08%	19,493,660	1.55%
Hotel & Restaurant	9,715,915	0.68%	34,372,580	2.74%
Tourism	41,318,695	2.88%	27,816,028	2.22%
Transport & Comm.	75,478,828	5.26%	87,555,744	6.98%
Finance	83,611,926	5.83%	66,548,295	5.31%
Real estate	72,412,165	5.04%	56,090,320	4.47%
Education	1,382,989	0.10%	1,270,754	0.10%
Healthcare	7,126,253	0.50%	3,374,808	0.27%
Social services	17,506,137	1.22%	17,370,759	1.39%
Entrepreneurship	689,900	0.05%	1,064,487	0.08%
International organ.	2,784	0.00%	90,004	0.01%
Public service	1,150,675	0.08%	5,708,414	0.46%
Mortgage & House maintenance	248,263,205	17.30%	192,907,394	15.38%
Car	7,688,923	0.54%	5,370,877	0.43%
Home appliances	2,239,074	0.16%	3,546,555	0.28%
Salary & Consumption	120,768,266	8.41%	117,414,312	9.36%
Total loans to customers (gross)	**1,435,379,112**	**100.00%**	**1,253,980,004**	**100.00%**

As at 31 December 2012, the Group and the Group had 21 borrowers (2011: 25 borrowers) with the aggregate loan amount above 10% of the Group's capital. The aggregate amount of these loans was MNT595,700,219 thousand or 42% of total loans to customers (2011: MNT545,919,967 thousand or 44% of total loans to customers).

Below is the credit quality analysis of loans as at 31 December 2012:

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Corporate loans				
Individually impaired loans	**16,480,610**	**13,113,039**	**3,367,570**	**79.57%**
Current loans (not past due)				
Collectively impaired loans	**738,440,367**	**3,822,951**	**734,617,416**	**0.52%**
Current loans (not past due)	734,264,067	3,822,951	730,441,116	0.52%
Less than 1 month overdue	-	-	-	0.00%
1 to 2 months overdue	4,176,300	-	4,176,300	0.00%
2 to 3 months overdue	-	-	-	0.00%
More than 3 months overdue	-	-	-	0.00%
Total corporate loans	**754,920,977**	**16,935,990**	**737,984,986**	**2.24%**
Loans to small and medium business				
Individually impaired loans	**22,943,736**	**6,608,569**	**16,335,167**	**28.80%**
Current loans (not past due)				
Collectively impaired loans	**278,554,930**	**1,839,689**	**276,715,241**	**0.66%**
Current loans (not past due)	266,792,037	1,519,682	265,272,355	0.57%
Less than 1 month overdue	3,120,832	12,342	3,108,490	0.40%
1 to 2 months overdue	2,097,497	57,411	2,040,086	2.74%
2 to 3 months overdue	1,761,165	82,940	1,678,225	4.71%
More than 3 months overdue	4,783,399	167,314	4,616,085	3.50%
Total loans to small and medium business	**301,498,666**	**8,448,258**	**293,050,408**	**2.80%**
Consumer loans to individuals				
Individually impaired loans	**203,857**	**203,857**	**–**	**100.00%**
Current loans (not past due)				
Collectively impaired loans	**130,535,490**	**87,243**	**130,448,247**	**0.07%**
Current loans (not past due)	126,615,334	32,447	126,582,886	0.03%
Less than 1 month overdue	1,527,968	5,171	1,522,797	0.34%
1 to 2 months overdue	251,323	2,995	248,329	1.19%
2 to 3 months overdue	237,842	3,826	234,016	1.61%
More than 3 months overdue	1,903,023	42,804	1,860,219	2.25%
Total consumer loans to individuals	**130,739,347**	**291,100**	**130,448,247**	**0.22%**

15. LOANS AND ADVANCES TO CUSTOMERS – NET (continued)

Below is the credit quality analysis of loans as at 31 December 2012:

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Mortgage loans to individuals				
Individually impaired loans	**437,753**	**34,368**	**403,385**	**7.85%**
Current loans (not past due)				
Collectively impaired loans	**247,782,369**	**239,526**	**247,542,844**	**0.10%**
Current loans (not past due)	241,282,890	179,618	241,103,274	0.07%
Less than 1 month overdue	1,706,056	1,103	1,704,954	0.06%
1 to 2 months overdue	1,135,442	7,605	1,127,837	0.67%
2 to 3 months overdue	822,604	7,485	815,118	0.91%
More than 3 months overdue	2,835,377	43,715	2,791,661	1.54%
Total mortgage loans to individuals	**248,220,122**	**273,894**	**247,946,229**	**0.11%**
Total loans to customers	**1,435,379,112**	**25,949,242**	**1,409,429,870**	**1.81%**

Individually assessed loans are loans that are material in value and/or show certain signs of impairment and are individually assessed by the Group.

Unimpaired loans represent loans issued to borrowers with a high level of liquidity and profitability, in respect of which there is no evidence that they are individually impaired.

Collectively assessed loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure and/or signs of impairment.

The credit quality of loans to customers for which no signs of impairment were identified is not homogeneous due to diversity of industry risks and financial position characteristics of borrowers.

The amounts recognised as past due represent the entire balance of such loans, not only the individual installments that are past due.

Below is the credit quality analysis of loans as at 31 December 2011:

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Corporate loans				
Individually impaired loans	**11,515,894**	**4,957,479**	**6,558,415**	**43.05%**
Current loans (not past due)				
Collectively impaired loans	**708,134,913**	**4,617,935**	**703,516,978**	**0.65%**
Current loans (not past due)	693,187,379	4,069,396	689,117,983	0.59%
Less than 1 month overdue	5,953,406	15,015	5,938,391	0.25%
1 to 2 months overdue	7,121,487	218,356	6,903,131	3.07%
2 to 3 months overdue	-	-	-	0.00%
More than 3 months overdue	1,872,641	315,168	1,557,473	16.83%
Total corporate loans	**719,650,807**	**9,575,414**	**710,075,393**	**1.33%**
Loans to small and medium business				
Individually impaired loans	**11,025,839**	**5,995,779**	**5,030,061**	**54.38%**
Current loans (not past due)				
Collectively impaired loans	**203,854,454**	**1,689,599**	**202,164,854**	**0.83%**
Current loans (not past due)	190,806,993	1,303,761	189,503,232	0.68%
Less than 1 month overdue	6,433,119	43,641	6,389,478	0.68%
1 to 2 months overdue	687,935	20,890	667,045	3.04%
2 to 3 months overdue	1,574,167	62,395	1,511,771	3.96%
More than 3 months overdue	4,352,240	258,912	4,093,328	5.95%
Total loans to small and medium business	**214,880,293**	**7,685,378**	**207,194,915**	**3.58%**
Consumer loans to individuals				
Individually impaired loans	**–**	**–**	**–**	**0.00%**
Current loans (not past due)				
Collectively impaired loans	**126,569,078**	**77,334**	**126,491,744**	**0.06%**
Current loans (not past due)	121,745,105	37,162	121,707,944	0.03%
Less than 1 month overdue	2,848,465	1,339	2,847,126	0.05%
1 to 2 months overdue	431,905	4,741	427,163	1.10%
2 to 3 months overdue	88,182	1,520	86,662	1.72%
More than 3 months overdue	1,455,421	32,572	1,422,849	2.24%
Total consumer loans to individuals	**126,569,078**	**77,334**	**126,491,744**	**0.06%**

15. LOANS AND ADVANCES TO CUSTOMERS – NET (continued)

Below is the credit quality analysis of loans as at 31 December 2011:

	Gross loans	Impairment provision	Loans net of impairment provision	Impairment/ gross loans
	MNT'000	MNT'000	MNT'000	%
Mortgage loans to individuals				
Individually impaired loans	**–**	**–**	**–**	**0.00%**
Current loans (not past due)				
Collectively impaired loans	**192,879,826**	**216,180**	**192,663,646**	**0.11%**
Current loans (not past due)	186,345,146	186,401	186,158,746	0.10%
Less than 1 month overdue	3,137,026	2,948	3,134,077	0.09%
1 to 2 months overdue	1,797,564	10,117	1,787,447	0.56%
2 to 3 months overdue	848,098	7,610	840,488	0.90%
More than 3 months overdue	751,992	9,104	742,888	1.21%
Total mortgage loans to individuals	**192,879,826**	**216,180**	**192,663,646**	**0.11%**
Total loans to customers	**1,253,980,004**	**17,554,306**	**1,236,425,698**	**1.40%**

Below is the information on the collateral structure as at 31 December 2012:

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Receivable	88,092,960	10,936,800	-	-	99,029,760
Inventory	74,755,000	20,164,950	694,039	-	95,613,989
Building	486,289,517	364,048,773	34,333,596	501,403,239	1,386,075,124
Other assets	178,689,001	127,435,634	1,609,556	24,796,666	332,530,857
Land	365,497,636	190,294,216	54,600	8,431,743	564,278,195
Equipment & Vehicle	338,660,654	124,759,506	19,438,359	236,500	483,095,019
Income	101,913,339	-	180,359,484	689,568	282,962,391
Working capital	297,659,030	59,740,222	91,233,412	1,089,369	449,722,033
Securities	483,963,686	111,888,731	-	213,268	596,065,686
Deposits	56,551,854	7,913,245	180,655,526	431,760	245,552,385
Total collateral	**2,472,072,677**	**1,017,182,077**	**508,378,573**	**537,292,112**	**4,534,925,438**

Below is the information on the collateral structure as at 31 December 2011:

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Receivable	44,425,667	3,000,000	-	-	47,425,667
Inventory	172,056,322	17,900,477	832,824	-	190,789,622
Building	250,050,691	243,424,764	16,947,043	350,637,874	861,060,372
Other assets	56,919,522	8,046,547	1,415,257	14,140,214	80,521,540
Land	21,506,970	15,520,330	76,900	30,429	37,134,628
Equipment & Vehicle	162,408,674	28,136,992	9,572,457	8,500	200,126,623
Income	52,663,700	-	117,863,576	545,081	171,072,357
Working capital	65,749,910	32,781,990	19,651,972	1,184,184	119,368,056
Securities	200,177,547	14,971,935	-	-	215,149,482
Deposits	-	1,634,458	331,195,322	36,000	332,865,780
Total collateral	**1,025,959,002**	**365,417,494**	**497,555,350**	**366,582,281**	**2,255,514,127**

16. PROPERTY, PLANT AND EQUIPMENT

Cost	Building	Motor Vehicles	Computer equipment	PPE reserve	Furniture	Construction in progress	Leasehold improvement	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Balance at 01 January 2011	**6,725,311**	**1,212,275**	**8,694,681**	**1,360,657**	**1,978,128**	**12,370,366**	**–**	**32,341,418**
Acquisition	836,152	483,773	356,755	2,571,871	455,009	2,859,995	-	**7,563,555**
Reclassification	-	-	2,227,301	(2,227,301)	-	-	-	**–**
Disposal	-	(87,565)	(273,507)	-	(8,586)	-	-	**(369,658)**
Transfers	-	-	48,365	-	(48,365)	-	-	**–**
Write-offs	-	(6,227)	(509,666)	-	(57,210)	-	-	**(573,103)**
Balance at 31 December 2011	**7,561,463**	**1,602,256**	**10,543,929**	**1,705,227**	**2,318,976**	**15,230,361**	**–**	**38,962,212**
Acquisition	96,594	665,691	316,219	6,107,625	519,941	2,302,218	379,022	**10,387,310**
Reclassification	-	-	5,573,090	(5,573,090)	-	-	-	**–**
Capitalization	3,058,246	-	-	-	-	(3,058,246)	-	**–**
Disposal	-	(78,720)	(192,230)	-	(6,765)	(694,150)	-	**(971,865)**
Write-offs	-	(70,688)	(561,890)	-	(36,856)	-	-	**(669,432)**
Balance at 31 December 2012	**10,716,303**	**2,118,539**	**15,679,118**	**2,239,762**	**2,795,296**	**13,780,185**	**379,022**	**47,708,225**

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated Depreciation	Building	Motor Vehicles	Computer equipment	PPE reserve	Furniture	Construction in progress	Leasehold improvement	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Balance at 01 January 2011	**319,530**	**311,516**	**5,285,970**	**–**	**832,215**	**–**	**–**	**6,749,231**
Charge for the year	171,287	165,850	2,035,480	-	195,802	-	-	**2,568,419**
Disposal	-	(36,520)	(269,720)	-	(7,934)	-	-	**(314,174)**
Reclassification	-	-	15,074	-	(15,074)	-	-	**–**
Write-offs	-	(6,227)	(509,310)	-	(49,809)	-	-	**(565,346)**
Balance at 31 December 2011	**490,817**	**434,619**	**6,557,494**		**955,200**	**–**	**–**	**8,438,130**
	490,817	434,619	6,557,494	-	955,200	-	**–**	**8,438,130**
Charge for the year	223,658	295,491	2,926,593	-	253,152	-	96,975	**3,795,869**
Disposal	-	(40,702)	(188,651)	-	(6,404)	-	-	**(235,757)**
Write-offs	-	(70,688)	(552,761)	-	(24,119)	-	-	**(647,568)**
Balance at 31 December 2012	**714,475**	**618,720**	**8,742,675**	**–**	**1,177,829**	**–**	**96,975**	**11,350,674**
	714,475	618,720	8,742,675	-	1,177,829	-	96,975	**11,350,674**
Net carrying amount								
At 31 December 2011	**7,070,646**	**1,167,637**	**3,986,435**	**1,705,227**	**1,363,776**	**15,230,361**	**–**	**30,524,082**
At 31 December 2012	**10,001,828**	**1,499,819**	**6,936,443**	**2,239,762**	**1,617,467**	**13,780,185**	**282,047**	**36,357,551**

The carrying amount above includes the cost of property, plant and equipment of Golomt Security LLC, a subsidiary of the Bank, in the amount of MNT35,634 thousand less the accumulated depreciation of MNT6,433 thousand as of 31 December 2012 (2011: MNT0.00).

17. INTANGIBLE ASSETS

	Software and Licenses	Web domain	Landhold right	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Cost				
Balance at 01 January 2011	**4,176,498**	**–**	**329**	**4,176,827**
Additions	113,446	2,408	-	115,854
Balance at 31 December 2011	**4,289,944**	**2,408**	**329**	**4,292,681**
Additions	719,364	1,108	-	720,472
Balance at 31 December 2012	**5,009,308**	**3,516**	**329**	**5,013,153**
Accumulated amortization				
Balance at 01 January 2011	**3,071,634**	**–**	**–**	**3,071,634**
Charge for the year	574,950	107	-	575,057
Balance at 31 December 2011	**3,646,584**	**107**	**–**	**3,646,691**
Charge for the year	562,308	1,314	-	563,622
Balance at 31 December 2012	**4,208,892**	**1,421**	**–**	**4,210,313**
Net carrying amount				
at 31 December 2011	**643,360**	**2,301**	**329**	**645,990**
at 31 December 2012	**800,416**	**2,095**	**329**	**802,840**

The carrying amount of intangible assets of the Group includes the net carrying amount of web domain of Golomt Security LLC, a subsidiary of the Bank, in the amount of MNT2,095 thousand as at 31 December 2012 (2011: MNT2,301 thousand).

18. INVESTMENT PROPERTIES

	2012 MNT'000	2011 MNT'000
Cost		
Balance at 01 January	**1,122,927**	**538,791**
Additions	32,599	584,136
Balance at 31 December	**1,155,526**	**1,122,927**
Accumulated depreciation		
Balance at 01 January	**342,484**	**261,661**
Charge for the year	114,450	80,823
Balance at 31 December	**456,934**	**342,484**
Net carrying amount		
at 31 December 2011	**780,443**	**277,130**
at 31 December 2012	**698,592**	**780,443**

The investment properties accounted for under cost approach represent the carrying value of complex of summer camp buildings not used for principal activity of the Group.

The fair value of these investment properties is approximately to MNT990,720 thousand as of 31 December 2012 (2011: MNT928,177 thousand).

19. FORECLOSED PROPERTIES

	2012 MNT'000	2011 MNT'000
Cost of		
Less: Impairment provision	523,310	604,029
	(523,310)	(604,029)
	–	–
Changes in impairment provision of foreclosed properties		
Balance at 01 January	**604,029**	**669,510**
Additions	-	1,219
Recovered	(68,000)	(66,700)
Write-offs	(12,719)	-
Balance at 31 December	**523,310**	**604,029**

20. OTHER ASSETS

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Advance payments related to business transactions	5,861,320	4,039,591
Accounts receivable related to business transactions	4,961,856	3,484,636
Consumables and other inventories	977,470	715,547
	11,800,646	8,239,774
Less: provision for impairment of other assets	(690,342)	(690,770)
Total other assets	**11,110,304**	**7,549,004**

Movements in the provision for impairment of other assets during 2012 and 2011 are as follows:

	Advance payments MNT'000	Accounts receivable MNT'000	Total MNT'000
Provision for impairment of other assets as at 1 January 2011	**–**	**628,913**	**628,913**
Provision / (recovery of provision) for impairment during 2011	102	60,550	60,652
Amounts written off during 2011 as uncollectible	-	(1,493)	(1,493)
Effect of exchange rate	-	2,698	2,698
Provision for impairment of other assets as at 31 December 2011	**102**	**690,668**	**690,770**
(Recovery of provision)/ provision for impairment during 2012	19,468	46,387	65,855
Amounts written off during 2012 as uncollectible	(102)	(66,091)	(66,193)
Effect of exchange rate	-	(90)	(90)
Provision for impairment of other assets as at 31 December 2012	**19,468**	**670,874**	**690,342**

The credit quality analysis of financial asset classified as other assets as at 31 December 2012 and 31 December 2011 has shown that all financial assets classified as other assets in the total amount of MNT11,110,305 (2011: MNT7,549,003) are current.

The aging analysis of impaired financial assets classified as other assets as at 31 December 2012 is as follows:

	Current MNT'000	Less than 1 month MNT'000	From 1 to 6 months MNT'000	From 6 to 12 months MNT'000	More than 1 year MNT'000	Total MNT'000
Receivables	4,145,825	-	1,501	-	814,530	**4,961,856**
Less: provision for impairment of other assets	-	-	-	-	(690,342)	**(690,342)**
Total financial assets classified as other assets	**4,145,825**	**–**	**1,501**	**–**	**124,188**	**4,271,514**

The aging analysis of impaired financial assets classified as other assets as at 31 December 2011 is as follows:

	Current MNT'000	Less than 1 month MNT'000	From 1 to 6 months MNT'000	From 6 to 12 months MNT'000	More than 1 year MNT'000	Total MNT'000
Receivables	2,713,120	360	2,810	-	768,345	**3,484,635**
Less: provision for impairment of other assets	-	-	-	-	(690,770)	**(690,770)**
Total financial assets classified as other assets	**2,713,120**	**360**	**2,810**	**–**	**77,575**	**2,793,865**

21. DEFERRED TAX ASSETS

Differences between IFRS and statutory taxation regulations of Mongolia give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial statement purposes and for the Group's profits tax purposes.

	2012 MNT'000	2011 MNT'000
At 01 January	**1,022,526**	**–**
Recognized in statement of comprehensive income	-	(995,028)
Deferral of tax	2,890,563	2,017,553
At 31 December	**3,913,089**	**1,022,525**

Calculation of deferred tax is as follows:

	2012 MNT'000	2011 MNT'000
Tax effect of deductible temporary differences		
Revaluation of financial investments	1,003,938	648,311
Revaluation of currency forward contracts	316	1,437
Changes in fair value of embedded derivatives	103,913	265,797
Prepaid income	937,739	1,045,822
Loans and advances to customers-reversal of credit loss provision	1,281,843	-
Provision for guarantee and letter of credit	530,997	-
Property, plant and equipment-accelerated tax depreciation	54,343	56,186
Gross deferred tax assets	**3,913,089**	**2,017,553**
Tax effect of taxable temporary differences		
Loans and advances to customers-reversal of credit loss provision	-	(995,028)
Gross deferred tax liabilities	**–**	**(995,028)**
Total net deferred tax liability	**3,913,089**	**1,022,525**

22. DUE TO OTHER BANKS

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Deposit from other commercial banks	46,989,030	9,496,253

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

GOLOMT BANK GROUP

23. CUSTOMER ACCOUNTS

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Government deposits		
current account	39,448,753	53,017,887
demand account	2,827,344	644,816
time deposits	213,063,171	48,170,115
Private sector deposits		
current account	365,579,066	442,274,677
demand account	9,780,602	2,981,812
time deposits	205,877,932	175,333,043
Individual deposits		
current account	81,319,799	80,667,448
demand account	351,181,560	369,678,278
time deposits	754,204,639	626,638,128
Other deposits		
current account	13,580,006	12,582,709
demand account	1,275,371	1,601,806
time deposits	18,392,128	25,632,079
	2,056,530,371	**1,839,222,798**

According to the Mongolian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

As at 31 December 2012, a term deposit of an individual in the amount of MNT245,552,385 thousand was provided as collateral against loans to customers.

Included in 'Due to customers' were deposits of MNT13,662,657 thousand (2011: MNT12,962,989 thousand) held as collateral for irrevocable commitments under financial guarantees.

The amount due to a subsidiary amounting to MNT50,742 thousand (2011: MNT101,491 thousand) was eliminated in the Group’s financial statements.

24. OTHER BORROWED FUNDS

		At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Borrowed funds under Projects /MNT/		83,279,011	53,740,026
Borrowed funds under Projects /USD/	(a)	8,193,783	7,847,136
		91,472,794	**61,587,162**
Borrowings from foreign banks and financial institutions /USD/		16,335,460	1,841,709
Borrowings from foreign banks and financial institutions /EUR/	(b)	5,032,154	-
		21,367,614	**1,841,709**
		112,840,408	**63,428,871**

(a) Borrowed funds under projects

		At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Projects			
Borrowings under Housing Finance Project	(i)	2,376,779	2,968,866
Borrowings under SME development and natural environment protection	(ii)	18,444,310	12,283,281
Borrowings under SME industry support fund	(iii)	25,900,874	21,773,515
Borrowings under project for support to finished wool and cashmere producers	(iv)	12,229,534	11,230,000
Borrowings under 40,000 Housing Unit Development Program	(v)	701,283	4,002,885
Borrowings under Fuel Price Stabilization Sub-Program	(vi)	25,803,963	-
Borrowings under Agriculture and Rural Development Project	(vii)	3,548,188	1,954,918
Other borrowings under projects	(viii)	2,467,863	7,373,697
		91,472,794	**61,587,162**

(i) Housing Finance Project Loan

In 26 April 2002, Sub-Loan Agreement was entered between Government of Mongolia and Asian Development Bank. Within framework of this loan, the Bank entered into a sub-loan agreement with the Ministry of Finance dated on 26 April 2002 for the purpose of the fulfillment of project A of "Housing project Loan".

The purpose of project to provide the needs of house of Mongolian population, to establish the financing mechanism based on marketing communication and lower and medium income household, to assist them the long term purpose, to improve the infrastructure of ger district through reducing the poverty, to improve the life environment and to provide housing loan can be merge with capacity of payment of the lower income earners.

The bank should be finance the 25 percent of sub- loan and the bears the interest at the rate of 7.69-8.8%, and the maturity is the 10 years.

(ii) Two Step Loan Project for Small and Medium–Scaled Enterprises Development and Environment Protection

The loan agreement dated on 28 March 2006 was entered between the Government of Mongolia and Japan International Cooperation Agency for the purpose of Small and Medium Enterprises (SME) Development and Environmental Protection-MON-П7. Under this agreement, on 29 September 2006, the bank entered into the sub-loan agreement with Ministry of Finance accordance to the regulation on "on-lending of foreign financial resource" approved by the resolution No.185 of the Government of Mongolia in 2006.

The sub-loan agreement dated on 19 December 2011 was entered between the Ministry of Finance and Golomt Bank accordance with regulation No. 185 in 2006 of "Guidelines of on-lending to domestic of foreign resource" approved by Government of Mongolia and agreement dated on 19 November 2010 was entered between Government of Mongolia and JBIS purpose of Two-Step Project for Small and Medium Scaled Enterprises Development and Environmental Protection project.

The main purpose of this sub-loan is long term investment to SMEs engaged in environmental conservation business (to reduce air pollution, to change, renovate and improve the low pressure oven, to produce its coal). The amount of sub-loan is not less than 10,000 USD and not greater than 600,000 USD. If the amount of sub-loan is greater than 600,000 USD, it should be approved by Japanese International Corporation agency. The payment of interest is/set accordance with additional appendix of agreement in current situation.

The interest is calculated on the outstanding of sub-loan and the interest rate update at every 6 months. The sub-loan period is 3 to 10 years and (i) 2-3 years (grace period: 3 mounts to 1 year), (ii) 4 to 7 years (grace period: 1-2 years), (iii) 8 to 10 years (grace period: 2-3 years)

GOLOMT BANK GROUP

24. OTHER BORROWED FUNDS (continued)

(a) Borrowed funds under projects (continued)

(iii) Small and Medium Enterprises Development Fund

The loan agreement dated on 12 June 2009 was entered between the Ministry of Food, Agriculture and Light Industry and Golomt bank for the purpose of implementation of "Trend to develop the local manufacturing" and "Program for Development of industrial sector in Mongolia" approved by the Government of Mongolia. The Agreement re-created on 9 April 2010 and 02 June 2011.

The purpose of this agreement is the create the financing mechanism for manufacturing and services based on the opportunities and resources to develop SMEs in local area, to enhance the suitable and favorable financial environment with the involvement of government organizations and to cooperate on appropriate disbursement of accumulated in "Special-purpose fund" in order to enhance the maximum economic growth, growing employment in provinces and improvement in standard of level of livelihoods.

The amount of sub-loan to borrower should be equivalent to amount approved by the project selection commission and the sub-loan bear the interest at the rate of 8 percent per annum and the term of sub-loan should be up to 5 years. No commission is charged on sub-loan and the maximum grace period is 1 year.

The agreement No.31 dated 09 March 2010 was entered between the Development Fund of SME of Ministry of Food, Agriculture and Light Industry and Golomt Bank the purpose of financing SMEs by lending the necessary funds from the "Special-purpose fund". The amendment has created on 31 May 2011. The amount of loan to borrower should be approved by the project selection commission and the maximum amount of loan should be 200 million MNT in Ulaanbaatar, capital city of Mongolia, 100 million in aimag, and bears the interest rate is 7 percent, the term of loan up to 5 years. No commission is charged on sub-loan and the maximum grace period is 12 months.

(iv) The loans to producers of finished wool and cashmere products

The bank entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry and the Ministry of Finance on joint implementation of sub-loans funded by the Government Bonds on 10 October 2011 in accordance with the "Regulation for utilization, control over and reporting of the funds to support the national entrepreneurs engaged in production of cashmere finished goods, cashmere yarn and wool processing" approved by the resolution No.221 of the Government of Mongolia in 2011.

The sub-loan to be provided by the Bank is not exceed to the amount of sub-project, bears the interest at the rate of 7 percent per annum and has the term up to 5 years.

(v) 40,000 Housing Unit Development Program

The bank (borrower) entered the sub-loan agreement with Mongolian Housing Finance Corporation, Ministry of Finance according to fulfillment of Government project of "40000 housing" and under the regulation of "The main direction of Social and Economic Development of Mongolia on 2006-2008 approved Government of Mongolia regulation No. 69 in 2006.

The purpose of this agreement is to implement complex of activities of sub loan and its repayment from funds of Government bond for affordability of the home buyers and construction companies under the project of 40,000 housing unit approved by Government.

Sub-loan agreement was entered on 19 January 2012 between Government of Mongolia and Golomt Bank that extension of pervious agreement for purpose of lending to the potential buyers of apartments based on full analyses of "Sub loan agreement" in 27 February 2008. The interest rate is at bears of 7 percent and the maximum amount to borrower is 40 million MNT, period is up to 10 years.

(vi) Fuel Price Stabilization Project

The Bank of Mongolia and the Bank entered into a relending agreement for Fuel Retail Pricing Stabilization dated on December of 2012. Within the framework of this program, Magnai trade LLC and Sod Mongol LLC get involved into this project and the loan purpose to financing the import payment of fuel of these companies.

The interest rate is equal to interest rate that approved by Bank of Mongolian plus maximum margin of interest of participant bank. The loan term is up to one year (available to extend up to 2 years) after the efficient date of agreement.

(vii) Agriculture and Rural Development Project

The Grant Agreement No.0115 MON (SF) dated on 24 October 2008 was entered between the Government of Mongolia and Asian Development Bank for the purpose of "Agriculture and Rural Development Project". The period of Project is 2009 to 2013. The main purpose of this program is to support agriculture and rural development and reduce poverty through investing to the agro-business to develop value chain development. The loan request approved by Project Management Unit behalf of Ministry of Finance and ensured by Asian Development Bank. The Bank is responsible for sub-loan process including an interest rate calculated by actual interest of each Value chain development loan. The sub-loan schedule period is not greater than 7 years and grace period is not greater than 3 years after the efficient date of agreement.

(viii) Other project

- Labor and Welfare Service to support employment
  The loan agreement in 7 may 2001 was entered between Bank of Mongolia and Golomt Bank accordance with regulation of "Guidelines for lending from revolving funds"" under the "Labor support project" of ADB approved by Minister of Labor and Social Welfare, President of Mongolia regulation No.57/593 dated on 15 January 2000. A loan amount is firstly 10 million MNT and second time 15 million MNT. The loan agreement term is up to one year and Bank decides the relending proceeds based on borrower's business scope and manufacturing process. The relending requirement is qualifying project which is borrower paid a loan on schedule and generate new job position. The balance of Loan as 31 December 2012 was 396.6 million MNT.
- The agreement No. 3226-MOG dated on 17 November 1999 was entered between the Ministry of Finance, on behalf of International Development Association and Golomt Bank according to the development loan agreement of "Private Sector Development Project" between Government of Mongolia and International Development Association dated on 18 June 1999. The amount of sub-loan to be provided by the Bank not exceeding to the amount of sub-project. The principal amount of the loan shall be repaid in twenty/20/ years including a grace period of five /5/ years. Interest on the principal amount of the loan withdrawn and outstanding form time to time shall be payable by Golomt Bank at a fixed rate of 2%. The balance of loan as 31 December 2012 is 128,939.
- The Agreement dated on November 12, 2007 between the Ministry of Finance, on behalf of International Development Association and Golomt Bank according to loan agreement No.4088-MOG of International Development Association for Private Sector Development. The amount of sub-loan to be provided by the Bank not exceed to the amount of sub-project. The principal amount of the loan shall be repaid in twenty/20/ years including a grace period of five /5/ years. Interest on the principal amount of the loan withdrawn and outstanding form time to time shall be payable by Golomt Bank at a fixed rate of 2%. The balance of the loan as 31 December 2012 was 519,500 USD.

(b) Borrowings from foreign banks and financial institutions

	At 31 Dec 2012 MNT'000	**At 31 Dec 2011 MNT'000**
Borrowing from foreign banks - USD	16,335,460	1,841,709
Borrowing from foreign banks - EUR	5,032,154	-
	21,367,614	**1,841,709**

25. SUBORDINATE LOANS

	At 31 Dec 2012 MNT'000	**At 31 Dec 2011 MNT'000**
Subordinated convertible loan from Credit Suisse	-	13,852,295
Subordinated convertible loan from Stanhope Investments	34,691,374	34,012,319
	34,691,374	**47,864,614**

25. SUBORDINATE LOANS (continued)

Subordinated convertible loan from Credit Suisse

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

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

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

The loan was matured on 19 December 2012, at which date the loan was not repaid or converted into shares. The outstanding balance has been reclassified as other payables.

As at the date of the report, the major Shareholder of the Group has paid the principal amount of the loan to Credit Suisse and been in negotiation with the Group to transfer the loan from Credit Suisse.

Subordinated convertible loan from Stanhope Investments

On 8 June 2010, the Bank received a USD 25 million 5-year subordinated convertible loan from Stanhope Investments, a wholly owned subsidiary of Abu Dhabi Investment Council, with the following principal term:

(a) Conversion option - Stanhope Investments has the option at any time during the loan life to convert the loan into new ordinary shares of MNT1,000 each of the Bank at a Strike Price comprising the lower of MNT6,838.44 or the subscription price in any qualifying Initial Public Offer ("IPO") less any dividends as at the conversion date.

(b) The loan bears interest at 4.5% above LIBOR, payable quarterly.

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

26. DERVATIVE FINANCIAL INSTRUMENT

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Subordinated loans	34,691,374	47,864,614
Derivative financial instruments	1,172,027	2,570,585

Below is the information of compound financial instruments for their components:

	Liability Component MNT'000	Embedded derivative component MNT'000	Total MNT'000
At 31 December 2012	34,691,374	1,172,027	**35,863,401**
At 31 December 2011	47,864,614	2,570,585	**50,435,199**

As at 31 December 2012 and as at 31 December 2011, the fair value of the equity and currency derivatives have been determined based on standard option pricing model with the difference recognised to profit or loss. The fair value of the embedded derivatives mainly came from the currency option as there is lack of available observable market data in Mongolia in particular related to the equity price, volatility of equity price and credit spread. Considerable number of inputs to the valuation technique came from the Bank specific input that might not reflect market expectations and measures of the risk-return factors inherent in the instrument. As a result the variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant and hence the management concluded that the fair value cannot be measured reliably.

27. CONTINGENT PAYABLES

The amount represents the provision for the possible loss that may arise from the bank guarantee issued for its customers. Overall commitment is disclosed in Note 51, Contingent Liabilities and Commitments.

28. OTHER LIABILITIES

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Payables	41,029,741	8,323,160
Foreign and domestic remittances held over	1,081,803	1,128,999
Clearing settlement held over	24,706,553	15,636,529
Subordinated loan matured	13,921,000	-
	80,739,097	**25,088,688**

29. DEFERRED REVENUE

	At 31 Dec 2012 MNT'000	At 31 Dec 2011 MNT'000
Deferred commission income *	3,750,955	4,183,289
Deferred interest income	829,690	2,224,873
	4,580,645	**6,408,162**

* The amount represent the commission charged from the loan provided to the customers and will be amortised over the term of originated loans and advances

30. INCOME TAX PAYABLE

The amount represents the corporate income tax payable as at 31 December 2012 and 2011, respectively.

31. SHARE CAPITAL AND SHARE PREMIUM

	2012		2011	
	Number of shares	Nominal value– MNT 1,000 MNT'000	Number of shares	Nominal value– MNT 1,000 MNT'000
Ordinary shares-Authorised	33,000,000	33,000,000	33,000,000	33,000,000
Balance at 1 January	24,591,543	24,591,543	21,934,142	21,934,142
Issued during the year	1,316,050	1,316,050	2,657,401	2,657,401
Balance at 31 December	**25,907,593**	**25,907,593**	**24,591,543**	**24,591,543**

GOLOMT BANK GROUP

31. SHARE CAPITAL AND SHARE PREMIUM (continued)

Total share capital of the Bank consists of 25,907,593 (as of 31 Dec 2011: 24,591,543) ordinary shares at par value of MNT1,000 each as of 31 December 2012.

On 2 June 2011, 2,632,551 fully paid shares of the Bank of MNT1,000 each were issued to SWISS- MO Investment AG for cash at a subscription price of MNT 9,461.01 per share. The share premium of MNT 22,274,449 thousand arising from the issuance of ordinary shares has been included in the share premium account.

Between 7 November 2011 and 21 November 2011, 24,850 fully paid shares of the Bank of MNT 1,000 each were issued for cash on exercise of employee share options at the exercise price of MNT 3,834 per share. The share premium of MNT 70,424 thousand arising from the issuance of ordinary shares has been included in the share premium account.

On 19 March 2012, 1,300,000 fully paid shares of the Bank of MNT1,000 each were issued to Trafigura Beheer B.V. for cash at a subscription price of MNT 16,332.26 per share. The share premium of MNT19,931,938 thousand arising from the issuance of ordinary shares has been included in the share premium account.

On 19 October 2012, 16,050 fully paid shares of the Bank of MNT 1,000 each were issued for cash on exercise of employee share options at the exercise price of MNT 3,834 per share. The share premium of MNT45,486 thousand arising from the issuance of ordinary shares has been included in the share premium account.

	SWISS–Mo Investment	Employees	Trafigura Beheer BV	TOTAL
	MNT'000	**MNT'000**	MNT'000	**MNT'000**
At 01 Jan 2011	–	–	–	–
Share premium	22,274,449	70,425	-	22,344,874
At 31 Dec 2011	**22,274,449**	**70,425**	–	**22,344,874**
Share premium		45,486	19,931,938	19,977,424
At 31 Dec 2012	**22,274,449**	**115,911**	**19,931,938**	**42,322,298**

The Bank has a share option scheme under which options to subscribe for the Bank's shares have been granted to executives and employees at all levels throughout the Group and the Bank (Note 47, Share-based options).

32. OTHER COMPONENTS OF EQUITY

	At 31 Dec 2012	At 31 Dec 2011
	MNT'000	**MNT'000**
Regulatory reserve *	-	3,980,112
Share-based payment reserve	1,872,543	1,500,000
Available for sale reserve	203,213	262,407
Other reserve**	12,447	-
	2,088,203	**5,742,519**

*In accordance with the requirements of The Bank of Mongolia, the amount is set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under IAS 39.

** In accordance with the requirements of The Law of Mongolia on Securities Market and Financial Regulatory Commission, the underwriter or brokerage company must place minimum 3% of its equity as risk protection fund at the Securities Clearing House and Central Depository. In addition, based on the requirements of the Securities Clearing House and Central Depository, the brokerage company shall place at least MNT 2 million at one of the local commercial banks as a settlement guarantee before participating at Mongolian Stock Exchange.

33. RETAINED EARNINGS

According to the Mongolian legislation only accumulated retained earnings reflected in the Group's statutory financial statements may be distributed as dividends among the shareholders. As at 31 December 2012, the Group's retained earnings amounted to MNT116,889,330 thousands and the Bank's retained earnings amounted MNT117,007,183 thousands (2011: Group's MNT86,408,264 thousand Bank's MNT86,407,612 thousand).

34. INTERESTS AND SIMILAR INCOME

	2012 MNT'000	**2011 MNT'000**
Cash and balances with Central bank	19,127,774	36,121,145
Loans and advances to customers	166,605,608	123,277,459
Reserve repurchase agreements	496,522	130,006
Due from other banks	590,050	2,887,166
Investment held to maturity	13,425,061	2,749,353
	200,245,015	**165,165,129**

35. INTERESTS AND SIMILAR EXPENSES

	2012 MNT'000	**2011 MNT'000**
Customer accounts	(137,878,995)	(110,141,056)
Other borrowed funds	(1,901,780)	(1,654,263)
Due to other banks	(538,959)	(1,940,483)
Repurchase agreements	(683,440)	(236,721)
Subordinated loans	(2,121,798)	(1,904,852)
Others	-	(360,744)
	(143,124,972)	**(116,238,119)**

36. PROVISION FOR IMPAIRMENT OF DUE FROM OTHER BANKS AND LOANS TO CUSTOMERS

	2012 MNT'000	**2011 MNT'000**
Corporate lending	7,736,564	2,335,812
SME lending	660,110	4,767,622
Consumer lending	202,603	(710,907)
Residential lending	6,484	(230,488)
	8,605,761	6,162,039
Other receivables	60,299	71,021
	8,666,060	**6,233,060**

GOLOMT BANK GROUP

37. NET GAINS FROM/(NET LOSSES ON) FINANCIAL ASSETS

	2012 MNT'000	2011 MNT'000
Changes in fair value of embedded derivative	709,744	(1,063,189)
Changes in value of securities	(328,887)	(253,066)
Precious metal	276	19,390
Foreign exchange	4,484	488
	385,617	**(1,296,377)**

38. NET GAINS FROM/(NET LOSSES ON) FOREIGN EXCHANGE AND REVALUATION

	2012 MNT'000	2011 MNT'000
Realized gains from/(loss on) foreign exchange	19,293,136	19,462,783
Unrealized gains from/(loss on) foreign exchange	(2,078,050)	930,689
Gains from disposal of assets	6,762	14,889
Recovery of provision for foreclosed properties	68,000	66,700
Dividends received	6,777	4,902
Other	**115,167**	**50,118**
	17,411,792	**20,530,081**

39. FEES AND COMMISSIONS INCOME

	2012 MNT'000	2011 MNT'000
Account service fees and commissions	3,160,765	3,052,926
Card related fees and commissions	6,941,368	4,869,878
Credit related fees and commissions	4,157,062	716,810
Remittance and other service fees	5,709,989	5,390,301
Brokerage and other service fee *	11,146	-
	19,980,330	**14,029,915**

* The brokerage and service fee represents income earned by Golomt Security LLC, a subsidiary of the Group.

40. FEES AND COMMISSIONS EXPENSES

	2012 MNT'000	2011 MNT'000
Bank service expenses	(1,669,002)	(1,509,723)
Foreign currency charges	-	(2,539)
Card transaction expenses	(3,223,097)	(2,230,068)
Online transaction expense	(45,532)	(18,324)
	(4,937,631)	**(3,760,654)**

41. IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2012 MNT'000	2011 MNT'000
Financial investment		
Quoted equities	(1,040,666)	(2,340,179)

42. PROVISION FOR IMPAIRMENT OF OTHER ASSETS, CREDIT AND NON-CREDIT RELATED COMMITMENTS

The amount represents the expenses for impairment of credit related and non-credit related commitment. The overall commitment and its provision for impairment are disclosed in Note 48, Contingent Liabilities and Commitments.

43. OPERATING EXPENSES

	2012 MNT'000	2011 MNT'000
Staff costs (see below)	(18,704,902)	(14,327,374)
Depreciation and amortization	(3,910,319)	(2,649,348)
Professional services (security, communications, etc.)	(6,483,326)	(2,755,408)
Rental of premises	(4,947,957)	(3,241,761)
Expenses relating to maintenance of premises and equipment	(2,372,424)	(1,916,387)
Administrative expenses	(1,102,487)	(862,934)
Voluntary and mandatory insurance	(1,052,471)	(992,474)
Advertising and marketing	(1,940,098)	(1,239,770)
Taxes (other than income tax)	(220,019)	(171,160)
Amortisation of intangible assets	(563,621)	(574,950)
Donations	(88,989)	(36,799)
Entertainment	(443,887)	(430,169)
Loan collection expenses	(234,378)	(235,133)
Transportation	(901,411)	(529,242)
Travelling expenses	(726,091)	(529,460)
Utilities	(343,873)	(216,854)
Other	(1,512,210)	(1,806,685)
	(45,548,463)	**(32,515,908)**

Staff costs consist of:

	2012 MNT'000	2011 MNT'000
Salaries, wages and bonus	(15,311,074)	(10,672,906)
Contribution to social and health fund	(1,671,844)	(1,181,011)
Pension fund	(382,119)	(215,487)
Staff training	(415,898)	(315,801)
Staff benefits	(551,423)	(442,169)
Share-based payments (Note 33)	(372,543)	(1,500,000)

44. INCOME TAX EXPENSE

The Group and the Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group and the Bank are 10% (2011: 10%) for the first MNT3 billion (2011: MNT3 billion) of taxable income, and 25% (2011: 25%) on the excess of taxable income over MNT3 billion (2011: MNT3 billion). Interest income on domestic government bonds is not subject to income tax. Impairment losses for loans and advances are deductible for income tax purposes.

Corporate income tax of the Group consists of the following:

	2012 MNT'000	2011 MNT'000
Current income tax expense	8,970,585	10,044,950
Deferred taxation movement due to origination and reversal of temporary differences	-	-
Less: deferred taxation charged directly to other comprehensive income	(2,890,563)	(1,022,525)
Total income tax expense for the year	**6,080,022**	**9,022,425**

GOLOMT BANK GROUP

44. INCOME TAX EXPENSE (continued)

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2012 MNT'000	2011 MNT'000
IFRS profit before taxation	**32,580,975**	**37,249,453**
Theoretical tax charge at the applicable statutory rate (2012: 25%; 2011: 25%)	8,145,244	9,312,363
Reconciliation at effective tax rate		
Effect of income subject to lower tax rate	(450,324)	(450,238)
Effect of income not subject to tax	(932,822)	(835,478)
Non-deductible expenses less non-taxable income	312,952	995,777
Deferred tax liabilities not realized	(995,028)	-
Income tax expense for the year	**6,080,022**	**9,022,425**

45. COMPONENTS OF OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2012 MNT'000	2011 MNT'000
Financial assets available for sale		
Fair value revaluation of financial assets available for sale	(1,206,313)	(1,779,837)
Impairment of available-for-sale financial investment	1,147,119	2,340,179
Gains less losses on revaluation of financial assets available for sale	**(59,194)**	**560,342**

46. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group and the Bank by the weighted average number of ordinary shares outstanding during the year.
Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Group and the Bank (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2012 MNT'000	2011 MNT'000
Net profit attributable to equity holders of the Group and the Bank	26,500,953	28,227,028
Interest convertible loans	1,586,531	1,789,383
Net profit attributable to equity holders of the Group and Bank adjusted for the effect of dilution	**28,087,484**	**30,016,411**

	2012 No. of shares	2011 No. of shares
Weighted average number of ordinary shares for basic earnings per share	30,911,587	31,090,244
	MNT	MNT
Basic earnings per share	**1,096.54**	**1,279.10**
Diluted earnings per share	**908.64**	**965.46**

Below is the calculation of weighted average number of ordinary shares adjusted for the effect of share dilution.

	2012	2011
Weighted average number of ordinary shares for basic earnings per share	25,614,757	23,466,782
Effect of dilution:		
Convertible loans	5,089,246	7,519,608
Share options	207,584	103,854
Weighted average number of ordinary shares adjusted for the effect of dilution	**30,911,587**	**31,090,244**

47. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2012	2011
Expense arising from equity–settled		
Share–based option transactions	372,543	1,500,000

Executives and Employees share-option plan

The Bank granted 523,000 share options on 12 April 2011 to both executives and other employees at all levels with more than 5 years of service at the date of grant. The exercise price of the option was MNT 3,834 which was equal to the net assets per share on the last day of the preceding financial year with respect to which the options were granted. The options vested immediately on the date of grant. The contractual life of each option granted is 3 years. There are no cash settlement alternatives.

On 14 March 2012, the Bank granted additional 310,000 options to both executives and other employees with more than 5 years service which will be fully vested in 2.5 years from the date of grant. The exercise price of the options is MNT5,702 which is equal to the net assets per share on the last day of the preceding financial year with respect to which the options are granted. The contractual life of each option granted is 3 years. There are no cash settlement alternatives.

The fair value of the options is estimated at the grant date using a binomial pricing model, taking into accounts the terms and conditions upon which the instruments were granted.

	2012		2011	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	498,150	3,834	-	
Granted during the year	310,000	5,702	523,000	3,834
Exercised during the year	(16,050)	3,834	(24,850)	3,834
	792,100	**4,768**	**498,150**	**3,834**

The weighted average remaining contractual life for the share options outstanding at 31 December 2012 was 1.74 years (2011: 2.28 years).

The weighted average fair value of options granted during the year was MNT3,795 (2011: MNT3,317).

Inputs, such as Current share price in MNT 8,385 (2011: MNT6,158), Exercise price in MNT5,702 (2011:MNT3,834), Expected Volatility percent at 7.382 percent (2011: 5.195 percent) and Risk-free interest rate at 7.5 percent (2011: 10 percent), were used for calculation of equity-settled options.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grants were incorporated into the measurement of fair value.

48. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2012 MNT'000	2011 MNT'000
Financial guarantees issued	54,297,834	13,511,110
Performance guarantees	131,108,157	79,426,228
Letters of credit	99,881,607	112,134,143
Less: provision for impairment of credit related commitments	**(2,215,362)**	**(91,374)**
	283,072,236	204,980,107
Undrawn credit lines	39,446,920	29,804,038
Total credit related commitments	**322,519,156**	**234,784,145**

Letters of credit and guarantees (including standby letters of credit) commit the Group and the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same risk as loans even though they are of a contingent nature. No material losses are anticipated as a result of these transactions.

As at 31 December 2012, the significant legal claim against the Bank was filed by a Japanese entity on 9 July 2012. The claim against the Bank amounted to JPY 3,421,46,272 (approximately MNT57.34 billion), relating to 18 letters of credit issued by the Bank in favor of that Japanese entity in 2007 and 2008 and which remained largely unpaid. The Bank disputed the claim based on the management's opinion that the trade transactions, which were underlying those letters of credit, were void.

Subsequent to the year end, on 5 February 2013, the Japanese entity and the Bank entered into a agreement whereby the Bank agrees to pay US$1.2 million (approximately MNT1.67 billion), which was the amount equivalent to the amount of goods delivered to a buyer, to this Japanese entity within 7 days from the effective date of the settlement agreement, and such payment is deemed a full and final settlement of the dispute. The Japanese entity withdrew the claim against the Bank from the court. Based on withdrawal request, the case was closed in accordance with the Mongolian Law on Court Procedures of Civil cases.

At 31 December 2012, the Bank had made provision of USD 1.2 million (approximately MNT 1.67 billion) in relation to the full and final settlement of the above claim. As of the date of this report, the Bank made the payment of USD1.2 million in favor of the Japanese entity.

49. RELATED PARTY

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Group and the Bank enters into transactions with its major shareholders, directors and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Group's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end and asset transactions with related parties for 2012 and 2011 are as follows:

	Directors and key management personnel		Other related parties	
	2012	**2011**	**2012**	**2011**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Loans to customers				
Loans to customers as at 1 January (gross)	324,658	67,655	15,790,758	2,917,544
Loans to customers issued during the year	9,029,985	252,709	16,007,290	14,294,092
Loans to customers repaid during the year	(129,589)	(16,866)	(17,520,418)	(2,617,241)
Exchange difference	314,979	21,160	97,795	1,196,364
Loans to customers as at 31 December (gross)	**9,540,033**	**324,658**	**14,375,425**	**15,790,759**

The outstanding balances at the year end and asset transactions with related parties for 2012 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Loans to customers				
Loans to customers as at 1 January (gross)	877,323	324,658	14,913,435	16,115,416
Loans to customers issued during the year	384,230	9,029,985	15,623,060	25,037,275
Loans to customers repaid during the year	(224,964)	(129,589)	(17,295,454)	(17,650,007)
Exchange difference	-	314,979	97,795	412,774
Loans to customers as at 31 December (gross)	**1,036,589**	**9,540,033**	**13,338,836**	**25,037,275**

The outstanding balances at the year end and asset transactions with related parties for 2011 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Loans to customers				
Loans to customers as at 1 January (gross)	286,325	67,655	2,631,219	2,985,199
Loans to customers issued during the year	669,092	252,709	13,625,000	14,546,801
Loans to customers repaid during the year	(78,094)	(16,866)	(2,539,147)	(2,634,107)
Exchange difference	-	21,160	1,196,364	1,217,524
Loans to customers as at 31 December (gross)	**877,323**	**324,658**	**14,913,436**	**16,115,417**

The outstanding balances at the year end and liability transactions with related parties for 2012 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Customer accounts				
Customer accounts as at 01 January 2012	**9,714,489**	**434,918**	**10,238,194**	**20,387,602**
Customer accounts received during the year	182,624,580	3,283,628	112,983,037	298,891,244
Customer accounts repaid during the year	(188,322,172)	(3,130,658)	(118,870,050)	(310,322,880)
Exchange difference	(285,032)	31,178	4,411	(249,443)
Customer accounts as at 31 December 2012	**3,731,865**	**619,066**	**4,355,592**	**8,706,523**

GOLOMT BANK GROUP

49. RELATED PARTY (continued)

The outstanding balance of the guarantee issued for related party at the year end is as follows:

	2012 MNT'000	2011 MNT'000
Guarantee		
Bank guarantees as at 01 January 2012	-	-
Guarantee issued	16,539,150	-
Bank guarantees as at 31 December 2012	**16,539,150**	**–**

Directors and key management personnel mainly represent members of the Bank's Board of Directors and Executive Board

Other related parties are mostly represented by companies controlled by the Bank's major shareholders and the Bank.

Payments and remuneration to key management personnel in 2012 amounted to MNT 706,750 thousand (2011: MNT442,151 thousand).

	2012		2011	
	Expenses	Accrued liability	Expenses	Accrued liability
	MNT'000	MNT'000	MNT'000	MNT'000
Short-term payments:				
- Salaries	609,312	37,230	346,578	22,280
- Short-term bonuses	27,075	-	33,989	-
- Other short-term payments	27,013	-	30,334	-
- Anniversary bonuses	43,350	-	31,250	-
Share-based payments:				
- Dividends				
Total	**706,750**	**37,230**	**442,151**	**22,280**

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Group's financial instruments, their fair value is based on current economic conditions and the specific risks attributable to the instrument. The estimates presented below are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below is the estimated fair value of the Group's financial instruments as at 31 December 2012 and 31 December 2011:

	2012		2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Financial assets				
Cash and cash equivalents	186,730,836	186,730,836	95,317,841	95,317,841
Mandatory cash balances with the Central Bank	239,329,820	239,329,820	194,549,220	194,549,220
Due from other banks	214,670,056	214,721,585	221,882,444	221,882,444
Loans to customers	1,427,922,400	1,427,922,400	1,249,340,888	1,249,340,888
Financial assets				
-available for sale	5,104,319	1,778,566	4,984,833	2,758,940
- at fair value through profit or loss	6,454,413	5,897,807	1,235,916	1,061,151
- held-to-maturity	402,462,679	398,111,870	307,473,280	304,169,951
Other receivables	10,132,834	10,132,834	6,833,456	6,833,456
Financial liabilities				
Due to other banks	46,989,030	46,989,030	9,496,253	9,228,503
Customer accounts	2,056,530,371	2,056,530,371	1,839,222,798	1,839,222,798
Borrowed funds	112,840,408	93,910,933	63,428,871	54,275,492
Derivative financial instruments	1,172,027	1,172,027	2,570,585	2,570,585
Subordinated loans	34,691,374	34,691,374	47,864,614	47,864,614
Other payables	80,739,098	80,739,098	25,088,688	25,088,688

The following estimates and assumptions are used when assessing the fair value of the Group's financial instruments:

Cash and cash equivalents. The fair value of cash and cash equivalents is their carrying amount.

Financial instruments carried at fair value. Financial assets and liabilities at fair value through profit or loss, financial assets available for sale and financial assets pledged under repo agreements are carried in the statement of financial position at their fair value. Certain financial assets available for sale for which there are no available independent quotations have been fair valued by the Group on the basis of results of recent sales of interests in investees to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation techniques.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The Group's management believes that the fair values of due from other banks as at 31 December 2012 and 31 December 2011 do not materially differ from respective carrying amounts. This is primarily due to the short-term nature of the investments.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

Investments held to maturity. The fair value of fixed interest bearing investments held to maturity carried at amortised cost is determined by comparing the market interest rates at initial recognition of these instruments with current market rates on similar financial instruments. The estimated fair value of fixed interest bearing investments held to maturity is based on discounted cash flows using money market interest rates for debt instruments with similar credit risk and maturity.

Due to other banks. The fair value of due to other banks maturing in less than 1 month approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 1 month is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Group believes that fair values of due to other banks as at 31 December 2012 and 31 December 2011 do not materially differ from respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

GOLOMT BANK GROUP

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Customer accounts. The estimated fair value of liabilities with no stated maturity is based on the amount payable at the creditor's request. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for debt instruments with similar maturity.

Other borrowed funds. The fair value of other fixed interest bearing borrowed funds without market quotations is based on discounted cash flows using interest rates for debt instruments with similar maturity. The fair value of floating rate borrowed funds is their carrying amount.

Below is the fair value hierarchy of financial assets as at 31 December 2012. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 3 includes financial assets whose fair value is determined based on judgment or fair value techniques for which any significant input is not based on observable market data.

Below is the fair value hierarchy of financial assets as at 31 December 2012.

	Level 1 MNT'000	Level 1 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Derivative financial instrument				
Forward foreign exchange contract	-	3,220	-	3,220
Financial investment held-for-trading				
Quoted security	5,897,807	-	-	5,897,807
Financial investments available-for-sale				
Unquoted equities	-	-	679,271	679,271
Quoted security	1,099,295	-	-	1,099,295
Total	**6,997,102**	**3,220**	**679,271**	**7,679,593**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	1,172,027	-
Total	**–**	**–**	**1,172,027**	**–**

Below is the fair value hierarchy of financial assets as at 31 December 2011.

	Level 1 MNT'000	Level 1 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Derivative financial instrument				
Forward foreign exchange contract		-		-
Financial investment held-for-trading				
Quoted security	1,061,151	-	-	1,061,151
Financial investments available-for-sale				
Unquoted equities	-	-	642,922	642,922
Quoted security	2,116,018	-	-	2,116,018
Total	**3,177,169**	**–**	**642,922**	**3,820,091**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	2,758,940	2,758,940
Total	**–**	**–**	**2,758,940**	**2,758,940**

51. RISK MANAGEMENT

The risk management function within the Group and the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

51.1 Credit risk

The Group and the Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group and the Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers. Such risks are monitored by the Group and the Bank on a regular basis, the limits being subject to a monthly (in case the borrower is a credit institution) or quarterly (in case the borrower is a non-credit institution) review. Limits on the level of credit risk by product, borrowers and industry segments are approved by the Credit Committee.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining property and securities collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amount of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities, as described in Note 51, Risk Management.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies for contingent liabilities as it does for on-balance sheet financial instruments through established transaction approvals, risk control limits and monitoring procedures.

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Note 51, Risk Management.

The Group is exposed to early redemption risk as a result of lending at fixed or variable interest rates, including mortgage loans that give the borrower the right of early redemption. The financial result and the Group's equity for the current year and at the end of the reporting period would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

51.2 Market risk

The Group and the Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements. The Credit Committee sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk accepted.

51.3 Currency risk

The Group and the Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Credit Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and monitors the compliance on a daily basis.

51. RISK MANAGEMENT (continued)

51.3 Currency risk (continued)

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

Objectives and limitations of the VaR Methodology

The Group and the Bank uses three VaR methods which are the Delta Normal, the Monte Carlo Simulation and the Historical Simulation models to assess possible changes in the foreign currency portfolio based on historical data from the past one year. The VaR models are designed to measure foreign currency risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in foreign exchange and assumes that future exchange rate movements will follow a normal statistical distribution.
Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large foreign exchange moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.
In practice the actual foreign currency results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Foreign currency risk positions are also subject to regular stress tests to ensure that the Group and the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Group and the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current foreign currency open positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.
Since VaR is an integral part of the Group and the Bank's foreign currency risk management, VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The model is supplementary to the corresponding risk management requirements of the Group and the Bank of Mongolia.

	Delta Normal	Monte Carlo	Historical Simulation
	MNT'000	MNT'000	MNT'000
2012 - 31st December	114,443	118,334	129,954
2012 - Average Daily	140,253	141,948	183,030
2012 - Highest	561,410	648,023	740,283
2012 - Lowest	14,366	14,132	16,130
2011 - 31st December	94,273	82,478	146,194
2011 - Average Daily	104,820	107,649	141,578
2011 - Highest	339,147	362,101	477,653
2011 - Lowest	8,632	9,046	11,103

The Bank issued loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Mongolian Tugrug may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

51.3 Currency risk (continued)

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period if all other conditions remain unchanged.
A reasonably possible change in foreign exchange rate by currency is determined based on the analysis of maximal fluctuations in foreign exchange rates for December 2012. The analysis of foreign exchange rate fluctuations for the year 2012 showed that a reasonably possible fluctuation in the USD exchange rate as at 31 December 2012 could be 0.2%, and a reasonably possible fluctuation in exchange rate of EUR and other currencies as at 31 December 2012 could be 0.9% and 0.5%.

	At 31 December 2012	
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 0.2%	-42,728	54,719
USD depreciation by 0.2%	42,728	-54,719
EUR appreciation by 0.9%	-162,557	-162,557
EUR depreciation by 0.9%	162,557	162,557
Other currencies appreciation by 0.5%	32,711	32,711
Other currencies depreciation by 0.5%	-32,711	-32,711

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period if all other conditions remain unchanged.
A reasonably possible change in foreign exchange rate by currency is determined based on the analysis of maximal fluctuations in foreign exchange rates for December 2011. The analysis of foreign exchange rate fluctuations for the year 2011 showed that a reasonably possible fluctuation in USD exchange rate as at 31 December 2011 could be 1.0%, and a reasonably possible fluctuation in foreign exchange rate of EUR and other currencies as at 31 December 2011 could be 1.7% and 1.7%.

	At 31 December 2011	
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 1.0%	-95,051	393,679
USD depreciation by 1.0%	95,051	-393,679
EUR appreciation by 1.7%	-134,390	-134,390
EUR depreciation by 1.7%	134,390	134,390
Other currencies appreciation by 1.7%	26,030	26,030
Other currencies depreciation by 1.7%	-26,030	-26,030

51.4 Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group and the Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs and guarantees. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The Group is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities, and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Group is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the liquidity ratios with the laws and regulations. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Mongolia. The ratio during the year was as follows:

51. RISK MANAGEMENT (continued)

51.4 Liquidity risk(continued)

	2012	2011
At 31 December	41.06%	38.90%
Average during the period	36.00%	45.30%
Highest	41.40%	50.50%
Lowest	32.30%	38.90%

The Treasury of the Bank receives information about financial assets and liabilities. The Bank's Treasury controls liquidity ratios on a daily basis and, if necessary, raises funds from financial markets, mainly interbank loans, thereby managing quick and current liquidity.

The Group's management monitors the daily liquidity position and also performs stress testing under a variety of scenarios covering both normal and more severe market conditions.

The table below shows the liabilities as at 31 December 2012 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the statement of financial position, which are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the end of the reporting period. Foreign currency payments are translated using the CBoM exchange rates effective at the end of the reporting period.

The table below shows the maturity analysis of financial liabilities as at 31 December 2012:

	Less than 3 months	From 3 to 12 months	More than 12 months	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Financial Assets				
Cash and cash equivalents	186,730,836	-	-	186,730,836
Mandatory cash balances with the Bank of Mongolia	239,329,820	-	-	239,329,820
Due from other banks	214,639,748	30,308	-	214,670,056
Financial investments	347,278,941	42,338,061	16,371,241	405,988,243
Loans to customers	303,815,701	439,055,202	685,051,497	1,427,922,400
Other assets	9,825,531	1,612,513	3,585,349	15,023,393
Total assets	**1,301,620,577**	**483,036,084**	**705,008,087**	**2,489,664,748**
Financial Liabilities				
Due to banks	27,719,582	19,269,448	-	46,989,030
Due to customers	922,277,003	709,514,450	424,738,918	2,056,530,371
Derivative financial instrument			1,172,027	1,172,027
Borrowed funds	939,955	42,238,322	69,662,131	112,840,408
Subordinated loans	-236,470	125,344	34,802,500	34,691,374
Other payables	70,275,941	15,522,147	2,098,230	87,896,318
Total Liabilities	**1,020,976,011**	**786,669,711**	**532,473,806**	**2,340,119,528**
Net financial assets/(financial liabilities)	**280,644,566**	**(303,633,627)**	**172,534,281**	**149,545,220**

The table below shows the maturity analysis of financial liabilities as at 31 December 2011:

	Less than 3 months	From 3 to 12 months	More than 12 months	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Assets				
Cash and cash equivalents	95,317,841	-	-	95,317,841
Mandatory cash balances with the Bank of Mongolia	194,549,220	-	-	194,549,220
Due from other banks	221,882,444	-	-	221,882,444
Financial investments	230,599,366	74,397,957	28,072,114	333,069,437
Loans to customers	166,077,087	377,932,364	705,331,437	1,249,340,888
Other assets	5,874,536	527,235	2,169,757	8,571,528
Total assets	**914,300,494**	**452,857,556**	**735,573,308**	**2,102,731,358**
Liabilities				
Due to banks	9,496,253	-	-	9,496,253
Due to customers	890,818,058	519,918,399	428,486,341	1,839,222,798
Derivative financial instrument			2,570,585	2,570,585
Borrowed funds	1,475,397	2,925,629	59,027,845	63,428,871
Subordinated loans	119,631	13,894,512	33,850,471	47,864,614
Other payables	25,460,028	5,427,686	2,023,839	32,911,553
Total Liabilities	**927,369,367**	**542,166,226**	**525,959,081**	**1,995,494,674**
Net financial assets/(financial liabilities)	**(13,068,873)**	**(89,308,670)**	**209,614,227**	**107,236,684**

As the above analysis is based on expected maturity, the entire portfolio of financial assets available for sale is categorised as "On demand and less than 1 month" in accordance with the portfolio liquidity assessment by the management.

In the opinion of the Group's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Group. It is unusual for the banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Group does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

51.5 Interest rate risk

The Group and the Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions.

GOLOMT BANK GROUP

51. RISK MANAGEMENT (continued)

51.5 Interest rate risk (continued)

The Credit Committee sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

At 31 December 2012	Change in basis points	Sensitivity of net interest income
		MNT'000
EUR	120	(13,364)
USD	120	(822,398)
MNT	120	(102,289)
EUR	-120	13,364
USD	-120	822,398
MNT	-120	102,289
At 31st December 2011		
USD	120	(679,851)
MNT	120	(96,926)
USD	-120	679,851
MNT	-120	96,926

52. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

	At 31 Dec 2012	At 31 Dec 2011
	MNT'000	**MNT'000**
Cash on hand and cash with Central Bank	426,060,656	289,867,061
Due from other banks	214,670,056	221,882,444
Treasury Bills of the Bank of Mongolia	247,402,728	178,576,862
	888,133,440	**690,326,367**
Less: Minimum reserve with The Bank of Mongolia not available to finance the Group and the Bank's day to day operations	(239,329,820)	(194,549,220)
Total cash and cash equivalents recognized in the statement of cash flows	**648,803,620**	**495,777,147**

53. CAPITAL ADEQUACY

The Bank's capital management has the following objectives: to observe the capital requirements established by the CBoM, to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a minimum core capital adequacy ratio of 8% (2011: 6%) and risk weighted capital ratio of at least 13% (2011: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Central Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Management of the Bank and Chief Financial Officer.

The Bank is keen on maintaining the necessary capital level in order to preserve the confidence of creditors, investors and the market as a whole as well as to develop the future activity of the Bank. In accordance with the current capital requirements set by the CBoM, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level.

The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Mongolian legislation:

	2012	2011
Core capital	11.25%	9.47%
Risk weighted capital ratio	13.28%	12.85%

	2012 MNT'000	2011 MNT'000
Tier I Capital		
Ordinary shares	25,907,593	24,591,543
Share premium	42,322,298	22,344,874
Retained earnings	117,007,183	86,407,612
Other component of equity	2,075,756	5,742,519
Total Tier I Capital	**187,312,830**	**139,086,548**
Tier II Capital		
Subordinated loan	34,802,500	48,872,950
Total capital/capital base	**222,115,330**	**187,959,498**

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

	At 31 December 2012		At 31 December 2011	
	Assets MNT'000	Risk weighted assets MNT'000	Assets MNT'000	Risk weighted assets MNT'000
0%	723,655,847	-	498,197,712	-
20%	321,330,367	64,266,073	339,264,661	67,852,932
50%	388,628,910	194,314,455	269,952,860	134,976,430
100%	1,356,066,041	1,356,066,041	1,212,740,347	1,212,740,347
150%	9,776,388	14,664,583	6,629,078	9,943,617
	2,799,457,553	**1,629,311,152**	**2,326,784,658**	**1,425,513,326**

54. SUBSEQUENT EVENT

The subordinated loan from Credit Suisse amounting to USD10 million has been matured on 19 December 2012, and as of 31 December 2012, the outstanding balance of this borrowing has been reclassified as other payables. Subsequent to the reporting date, the major Shareholder of the Bank decided to transfer this liability from Credit Suisse and repaid on behalf of the Bank. As of the date of this report, the negotiation is in process between a shareholder of the Bank and Credit Suisse.

The significant claim by Japanese entity against the Bank in regards with the letters of credit has been resolved by the settlement and withdrawal agreement entered between Itochu Corporation of Japan and the Golomt Bank of Mongolia. The parties agreed to settle the outstanding commitments by making payment of USD1.2 million and the Bank made such payment to Itochu Corporation for the goods delivered to a buyer on 15 March 2013.

GOLOMT BANK GROUP

55. COMPARATIVE FIGURES

Certain corresponding figures have been reclassified to conform with the current year's presentation.

56. 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.