BANK OF MONGOLIA

ANNUAL REPORT 2012

STATEMENT FROM THE GOVERNOR

Ladies and gentlemen!

This year, the Bank of Mongolia (the Bank) has implemented a monetary policy with a goal to bring inflation down to a single-digit, ensure a sustainable economic growth, and promote a stable macroeconomic and financial environment. 2012 has been a year of significant external and internal difficulties for our economy, and proved to be a challenging year monetary policy implementation. Growing uncertainty in the global macroeconomic environment and economic slowdown in PRC have resulted in sharp decline in the regional investments and affected us through a weaker external demand and softer commodity prices. Since the fourth quarter of 2011, Mongolia has experienced a prolonged deterioration in terms of trade and foreign direct investment have declined, while past changes in the legislation has had a negative effect on the worsening domestic investment environment.

In order to reduce demand side pressure on inflation, caused by expansionary fiscal expenditure in 2011-2012 and cash handouts from the Human Development Fund, and facilitate macroeconomic stability, the Bank has tightened its monetary policy and increased the Reserve Ratio Requirement of commercial banks by a percentage point to 12 percent in the first half of 2012.

Furthermore, in an effort to reduce the supply side pressure on inflation and establish a sustainable market based supply mechanism of main consumption goods, the Bank has initiated the “Price stabilization program” in conjunction with the Government of Mongolia (the Government) in the second half of 2012. The PSP will sharply reduce the supply driven and cost push inflation, which has been the key factor behind long periods of high inflation, and bring down inflation to within the target level. In addition, policies aimed at lowering inflation to sustainable levels and increasing savings of middle-income households will be implemented to create an environment for long-term and sustainable economic growth.

As a result of policy measures taken in 2012 to reduce demand and supply side pressures, the national inflation rate has decreased by 2.3 percentage points y-o-y to 1.0 percent, while Ulaanbaatar city inflation rate has decreased by 1.5 percentage points y-o-y to 0.5 percent during the last two months of the year. Hence, a sufficient condition for decreasing upward pressures on inflation and maintaining inflation rates at 2013 and mid-term target levels is formed.

In the framework of ensuring financial stability, the Bank took measures to strengthen the risk bearing capacity and improvement of solvency across banks. Furthermore, to ensure the protection of depositors and strengthen the stability of the financial sector, the Bank has been working to make necessary changes in the legal environment to establish a limited deposit insurance system.

In 2012, the Bank took efforts to ensure the efficiency and reliability of the payment and settlement systems, promote the use of non-cash payment, and to stimulate the payment system reform in the mid-term.

Partial implementation of the Fiscal Stability Law and lack of fiscal discipline, coupled with pro-cyclical, reckless social welfare spending and cash handouts of 2011-2012, have weakened the core of the economy and sharply elevated its risks by encouraging wasteful consumption and increasing the pressure on balance of payments. As a direct consequence of faulty policy in the previous years, the Bank had no room to implement a monetary policy that promoted the real sector.

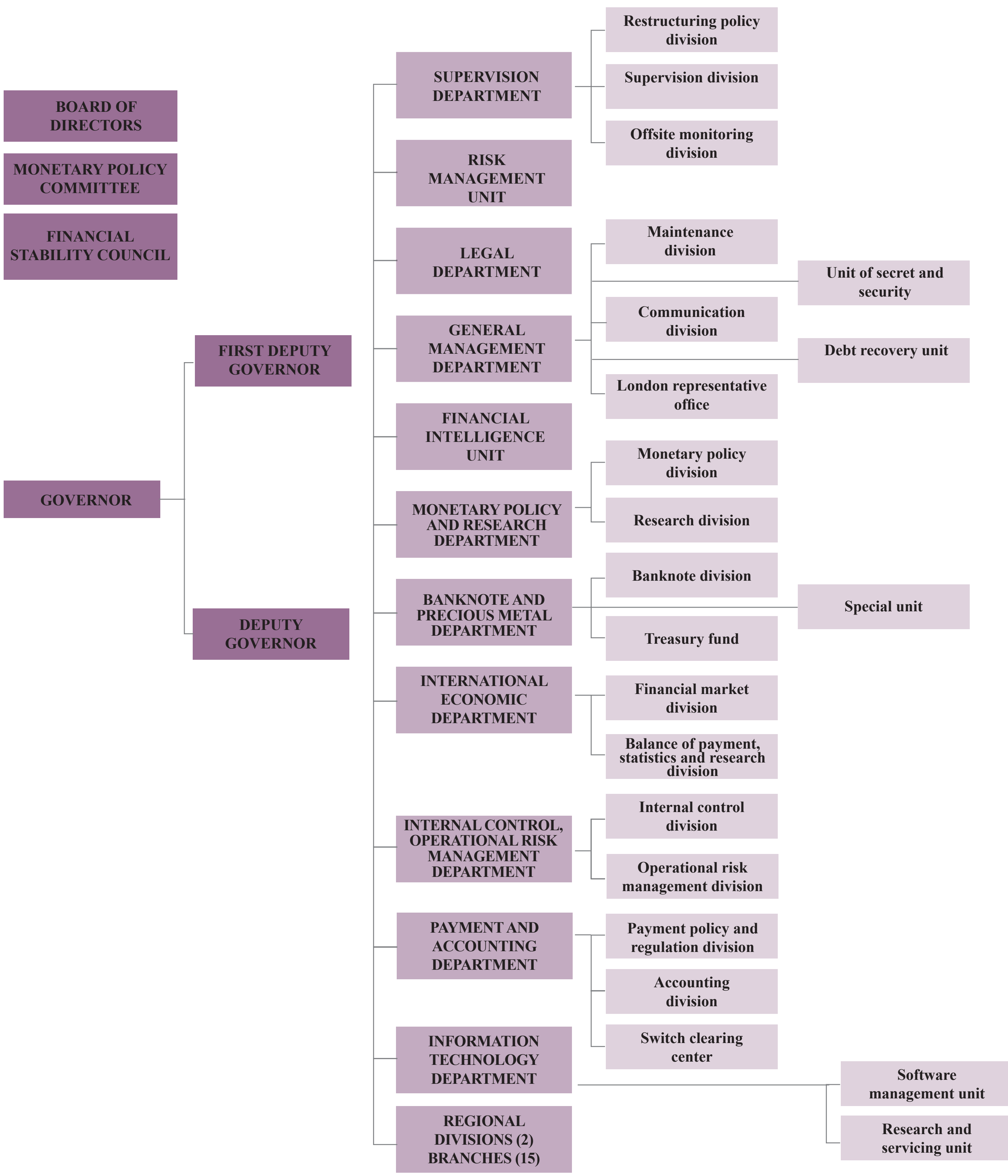
A complete implementation of the Fiscal Stability Law is expected to take effect in 2013 and the non-conventional monetary policy aimed at reducing supply driven inflationary pressures will persist continue throughout 2013. In addition, the Government has successfully issued its first ever $1.5 billion sovereign bond on international markets in December of 2012, increasing the country's foreign currency reserves. As a result of these positive developments, we are better positioned to reduce the effects of negative changes in the external environment and mitigate inherent risks and stabilize the domestic economy by implementing a counter-cyclical macroeconomic policy in 2013. Furthermore, the Bank will be able to implement a monetary policy aimed at protecting and ensuring stability of the financial sector, decelerating the growth of prices of consumer products such as meat, flour and oil, and promoting a stable real sector growth.

Thus, monetary policy in 2013 will focus on increasing the middle class savings, maintaining macroeconomic stability, strengthening financial sector and preventing from a potential risks associated with financial sector. All of which are the basis of a sustainable and long-term economic growth.

N.ZOLJARGAL

Governor, Bank of Mongolia

ORGANIZATIONAL CHART OF BANK OF MONGOLIA



CONTENT

MONGOLIA – MACROECONOMIC OVERVIEW

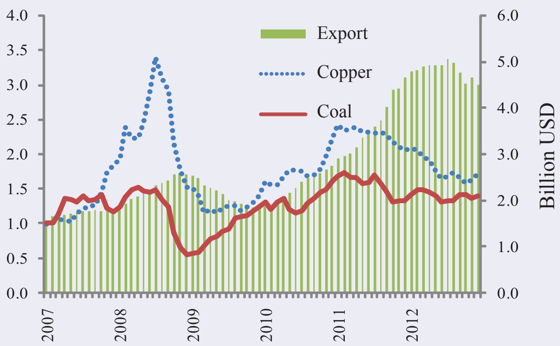
1

1.1 Real sector

Real GDP growth

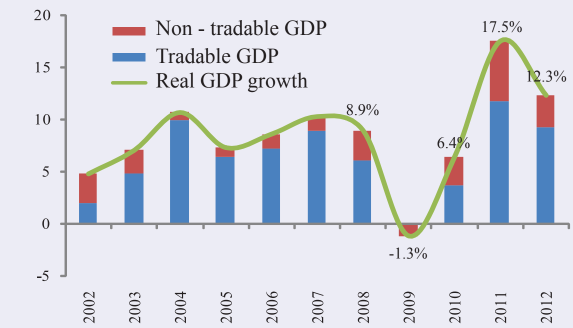
Real GDP growth was 12.3% for 2012. Quarterly movements in GDP growth were volatile throughout the year, reaching 17.8% in the Q1, highest rate in last 20 years, and sharply declining in the H2. Weakening commodity prices, partly driven by the Eurozone Crisis and the slowdown in PRC's growth to 7.9% (from 8.0% in 2011), has been the main factor behind the sharp decline in GDP growth.

Figure 1: Copper, coal price index (2000 = 1.0), Export



Source: NSO

Figure 2: Real GDP growth (%)



Source: World Bank

Last year, the services sector, especially restaurants and hotels businesses, had the most benefit from the mining sector boom and accounted for a large portion of the GDP growth. In 2012, the services sector growth dropped significantly, as weakening commodity prices and declining capital inflow put a downward pressure on the mining sector growth.

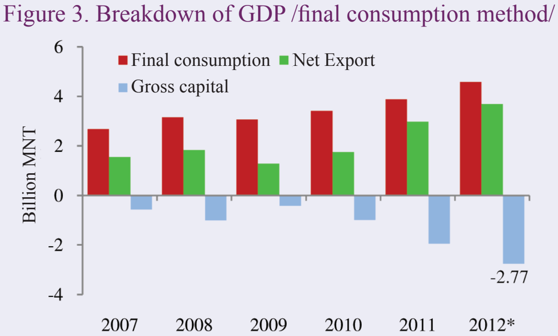
Looking at the sector-by-sector breakdown of the GDP growth, services sector still remains the largest contributor to the overall growth despite declining in Q4. The agriculture sector has increased its share of GDP growth, while the mining sector's contribution remains unchanged. According to final consumption method, trade deficit has been increasing except for 2009 crisis year and amounted to 50% of GDP by the end of the year. In addition, the economy continues to be heavily dependent on consumption.

Table 1. Real GDP growth

	2012			
	I	**II**	**III**	**IV**
Real GDP	**17.8%**	**17.6%**	**14.7%**	**12.3%**
Agriculture	0.1%	1.4%	2.2%	2.9%
Mining and quarrying	1.4%	1.6%	1.4%	1.4%
Industry (except mining)	1.2%	1.4%	1.2%	0.8%
Services	7.1%	6.0%	6.1%	5.7%
Net taxes on products	7.7%	7.4%	4.2%	1.1%

Source: NSO

Figure 3. Breakdown of GDP /final consumption method/



Labour force:

At the end of 2011, total labor force measured at 1,124.7 thousand workers, of which 53% were male and 47% were female workers. Total number of employed has increased to 1,037.7 thousand, labor force participation rate has reached 92.3% and unemployment rate has dropped to 7.7%.

Figure 4. Labour force

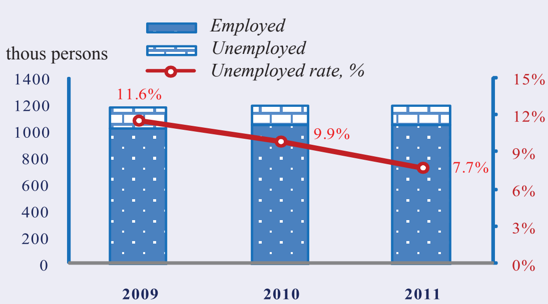
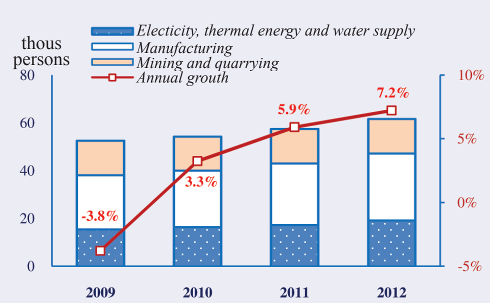


Figure 5. Employment in industry /by divisions/



Source: NSO

At the end of 2012, manufacturing sector employment rate has increased to 61.7 thousand, which marks a 7.2% increase from 2011. Manufacturing sector employment breakdown is as follows: 45.4% or 28 thousand in refinery sector, 31.2% or 19.2 thousand in mining sector, 23.4% or 14.5 thousand workers are in energy, thermal and water utility production.

Labour productivity

Total value of the industrial sector output has reached MNT 3.9 trillion and per unit output or labor productivity has reached MNT 38 million at the end of 2012. Mining and quarrying sector had the highest per labor unit productivity of MNT 69.8 million, which shows 1% drop from 2011 due to increased labor participation within the sector. Productivity in the manufacturing sector saw a slight increase of 0.1% and reached MNT 26.5 million, while energy, thermal and water utility production sector grew by 3.1% from the previous year to reach MNT 17.0 million at the end of 2012.

Table 2. Labour productivity of industrial sector

Labour productivity ** /at 2005 constant prices, thous.tog/	**2009**	**2010**	**2011**	**2012***	**2012/2011 (%)**
Industrial division	34.6	36.5	37.7	38.0	0.8%
Mining and quarrying	70.0	69.1	70.5	69.8	-1.0%
Manufacturing	23.7	25.7	26.4	26.5	0.1%
Electricity, thermal energy and water supply	14.9	15.7	16.5	17.0	3.1%

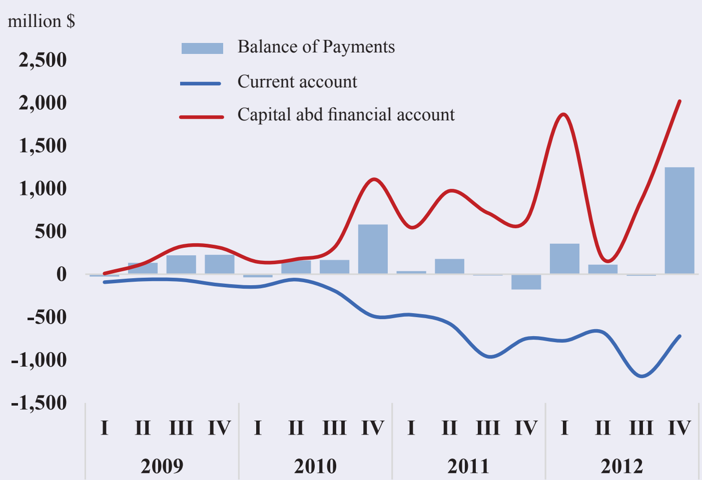
*Source: NSO /**- Gross output per employees/*

1.2 External sector

Balance of Payments

At the end of 2012, the current account deficit reached USD 3,362.3 million, while capital and financial account reported a surplus of USD 4,929.5 million. As a result the overall balance of payments reported surplus of USD 1,705.0 million.

Figure 6: Balance of Payments



Source: Bank of Mongolia

Current account

In 2012, current account deficit widened to USD 3,362.3 million, up 22% from the previous year. This was mainly driven by a 56% increase in trade in goods deficit and a 5% decrease in trade in service deficits, reaching USD 1,553.3 million and USD 1,100.3 million, respectively. The main factors contributed to the increase of trade and services deficit were (i) decrease in volumes and prices of coking coal and copper concentrate export, (ii) increase in import of oil products and (iii) rapid increase in transportation service's deficit.

Current account balance was relatively stable until 2007 (then 6% of GDP). However, in 2008 it drastically expanded to 12% of GDP due to country's rapid economic growth, increased government spending and growing good's imports. The deficit further expanded to 32% and 33% of GDP in 2011 and 2012 respectively, due to the increasing consumer loans and imports - promoted by pro-cyclical fiscal and social welfare policies and foreign direct investments.

Figure 7. Structure of Current account balance

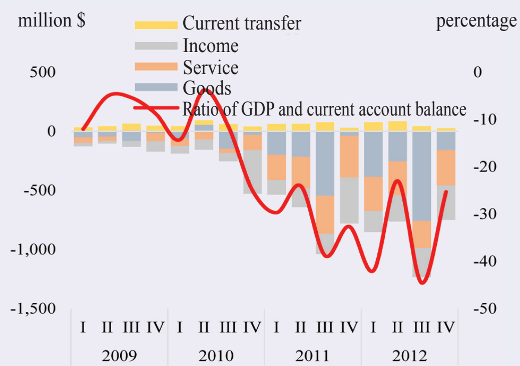
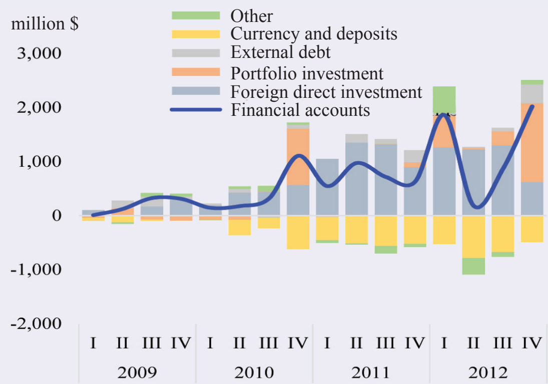


Figure 8. Structure of Capital and financial account balance



Source: Bank of Mongolia

Capital and financial account

During the reporting year, capital and financial account balance reached USD 4,929.5 million, up 72% from the previous year. The increase reflected a surge in the inflow of portfolio investments, which grew from USD 77.0 million in 2011 to USD 2,325.4 million in 2012.

Main changes in the capital and financial account in 2012:

- Net foreign direct investment declined 5% from 2011, reaching USD 4,407.8 million.
- Sharp increase in portfolio investment account surplus was mainly due to the issuances of (i) USD 578.0 million bond by the Development Bank, guaranteed by the Government of Mongolia, (ii) issuance of USD 300.0 million bond by Trade and Development bank of Mongolia and (iii) the very first sovereign bond issuance of USD 1,500.0 million on the international market by the Government of Mongolia
- Narrowing of other investments account deficit by USD 29.2 million due to changes in trade credits.

International Investment Position (IIP)

Mongolia's net international investment position at the end of 2012 was USD -14,219.4 million as the value of foreign investment to Mongolia exceeds the value of Mongolian investments abroad. This is primarily caused by balance of foreign direct investments, portfolio and other investments, especially the outstanding inter-company debt balance.

Table 3. Mongolian's international investment position – at the end of 2012 year (million USD)

A. ASSETS	6,380.0	B. LIABILITIES	20,599.5
1. Mongolian direct investment abroad	**1,191.4**	**6. Foreign direct investment in Mongolia**	**13,458.2**
1.1 Equity capital and reinvested eamings	1,190.6	6.1 Equity capital and reinvested eamings	5,100.9
1.2 Other capital	0.8	6.2 Other capital	8,357.4
2. Portfolio investment	**105.6**	**7. Portfolio investment**	**2,689.4**
2.1 Equity securities	100.9	7.1 Equity securities	112.9
2.2 Debt securities	4.7	7.2 Debt securities	2,576.5
3. Financial derivatives	**0.0**	**8. Financial derivatives**	**0.0**
4. Other investment	**956.9**	**9. Other investment**	**4,451.8**
4.1 Trade credits	383.5	9.1 Trade credits	252.1
4.2 Loans	14.9	9.2 Loans	3,621.5
4.2.1 Monetary authorities	0.0	9.2.1 Monetary authorities	77.9
4.2.2 General government	0.0	9.2.2 General government	2,184.1
4.2.3 Banks	14.9	9.2.3 Banks	336.8
4.2.4 Other sectors	0.0	9.2.4 Other sectors	1,022.7
4.3 Currency and deposits	558.5	9.3 Currency and deposits	142.3
4.4 Other assets	0.0	9.4 Other liabilities	436.0
5. Reserve assets	**4,126.1**	**C. INTERNATIONAL INVESTMENT POSITION (NET)**	**(14,219.4)**
5.1 Monetary gold	195.3		
5.2 Special draving rights	68.0	10. Direct investment (net)	(12,266.8)
5.3 Reserve position in the Fund (net)	0.2	11. Portfolio investment (net)	(2,583.7)
5.4 Currency and deposits	2,303.2	12. Financial derivatives (net)	0.0
5.5 Securities	1,559.3	13. Other investment (net)	(3,494.9)
5.6 Financial derivatives (net)	0.0	14. Reserve assets	4,126.1
5.7 Other claims	0.0		

Source: Bank of Mongolia

Mongolian investments abroad stood at USD 6,380.0 million, of which 65% was foreign currency reserve, 15% was other foreign assets and the rest was foreign direct investments. Whereas foreign owned assets reached USD 20,599.5 million, of which 65% were direct investments, 22% were other investment liabilities and 13% were portfolio investments.

The biggest constituent of foreign owned assets - FDI, was in forms of equity capital and reinvested earnings and inter-company loans, which amounted to 38% or USD 5,100.9 million and 62% or USD 8,357.4 million respectively.

Table 4. Mongolian's international investment position /by accounts/ (million USD)

	12/31/2010	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
International Investment Position (net)	**(1,678.4)**	**(7,692.3)**	**(9,741.3)**	**(11,308.5)**	**(12,785.8)**	**(14,219.4)**
Foreign direct investment	(2,048.1)	(7,602.5)	(9,071.9)	(10,575.4)	(11,689.3)	(12,266.8)
Portfolio investment	(229.8)	(312.8)	(882.6)	(900.3)	(1,150.3)	(2,583.7)
Financial derivatives	(0.0)	(0.0)	(0.0)	(0.0)	-	-
Other investment	(1,688.4)	(2,227.6)	(2,691.5)	(2,741.0)	(2,850.0)	(3,494.9)
Reserve assets	2,288.0	2,450.6	2,904.6	2,908.2	2,903.8	4,126.1

Source: Bank of Mongolia

Net international investment position decreased by 85% or USD 6,527.1 million from 2011. The decrease can be attributable to the following factors:

- USD 6,951.2 million or 51% increase in foreign liabilities while USD 959.8 million or 18% increase in assets,
- By the breakdown of accounts, net positions in foreign direct investment decreased by 61% or USD 4,664.3 million, portfolio investment decreased 8 times or by USD 2,270.9 million, and other investments decreased by 57% or USD 1267.3 million.

External debt

By the end of 2012, Mongolia's outstanding external debt has reached USD 15,386 million, 60% or USD 5,758 million high than 2011. The increase was due to following factors:

- USD 1.5 billion sovereign bond issued by the Government and USD 580 million sovereign-guaranteed notes issued by the Development Bank,
- USD 300 million corporate bond issued by Trade and Development Bank of Mongolia,
- USD 2.6 billion or 45% increase in intercompany loans drawn by mining companies from their foreign investors.

Debt to GDP ratio was 30%, 28%, 22% and 41% in 2009, 2010, 2011 and 2012 respectively.

Table 5. Mongolian's total external debt (million USD)

Indicators	12/31/2009	12/31/2010	12/31/2011	12/31/2012	Changes	
					Amount	*Percentage*
Gross External debt position	**2,985.8**	**5,928.0**	**9,627.5**	**15,385.7**	**5,758.2**	**60%**
I. Government	**1,818.1**	**1,787.6**	**1,950.9**	**4,264.1**	**2,313.3**	**119%**
II. Monetary authorities	**245.6**	**273.6**	**267.7**	**413.9**	**146.2**	**55%**
III. Banks	**341.1**	**505.9**	**709.9**	**1,074.4**	**364.5**	**51%**
Short term	112.7	76.9	81.7	58.2	-23.5	-29%
Long term	228.4	429.1	628.2	1,016.1	387.9	62%
IV. Other sectors	**361.7**	**645.6**	**948.7**	**1,276.0**	**327.3**	**34%**
Short term	135.5	288.6	501.6	508.2	6.7	1%
Long term	226.2	356.9	447.2	767.7	320.6	72%
V. Direct investment: Intercompany lending	**219.3**	**2,715.3**	**5,750.4**	**8,357.4**	**2,607.0**	**45%**

Source: Information of Government is prepared by the Ministry of Finance and other information is compiled by Bank of Mongolia.

1.3 Money and credit indicators

Net foreign assets decreased by 24.5% due to a lower foreign direct investment and a rising foreign trade deficit, caused by declining export revenues and growing imports demand (Figure 9).

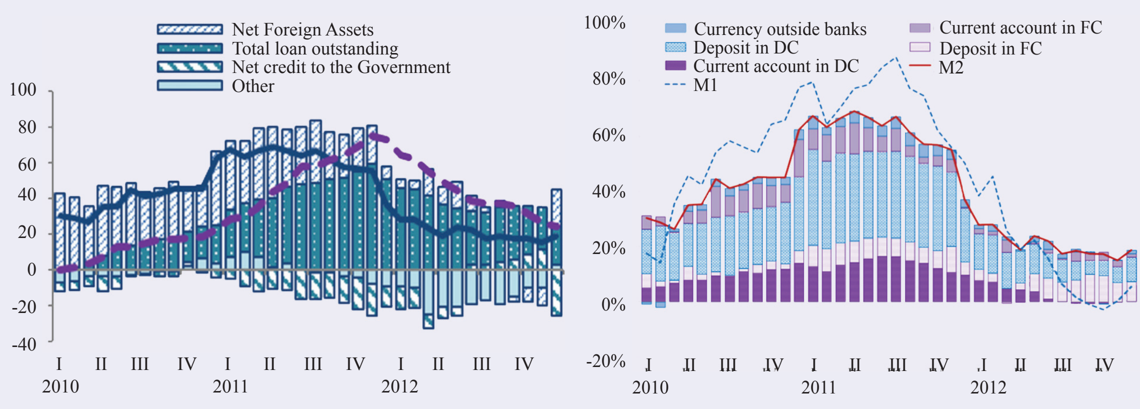
The growth of money and credit indicators have stabilized and the net domestic assets have risen by 65.2%, as a result of the financing provided by the Development Bank and the Government and measures taken by the Bank of Mongolia aimed at stabilizing the economy. Though the contribution of net foreign assets to the money supply growth decreased, the domestic components of money supply contributed significantly which led to M2 growth of 18.8% in 2012.

Domestic credit outstanding has been increasing rapidly since the beginning of 2010, reaching the peak annual growth of 75% in November 2011. Since then, the domestic credit growth has been showing a downward trend and stood at 24% as of December 2012. Such decrease in credit growth was mainly caused by a decline in the foreign components.

Looking at the liabilities' side, quasi money, especially current accounts in foreign currency, contributed significantly to the growth of M2 (Figure 9). The growth of M1, on the other hand, slowed down extensively in 2012.

In terms of the components of money supply, the percentage contribution of currency outside the banking sector has decreased while the percentage contribution of deposits in MNT has risen in recent years. Compared to previous year, the percentage contribution of current accounts in MNT declined while deposits in foreign currency had higher percentage contribution to money supply in 2012.

Figure 9. Contribution to annual growth of M2: assets*, liabilities



* USD 1.5 billion Sovereign bond is deducled from the Net foreign Assets
Source: Bank of Mongolia

Figure 10. Components of M2

Source: Bank of Mongolia

Prices

The national Consumer Price Index rose year-on-year by 14%, while Ulaanbaatar city's consumer price index has risen by 14.2%. In Ulaanbaatar city's CPI basket, product groups with highest price increases were: alcoholic beverages and tobacco products rose by 54.6%, food items by 19.9%, educational services by 16.1%, clothing and footwear by 13%, medical care and services by 11.7%. Increases in food prices has contributed 41.1% to annual inflation, while 13.3% was contributed by price increases of alcoholic beverages and tobacco, 12.1% by clothing and footwear, 9% by housing and utility, 6.8% by transportation, 6.8% by educational services.

Ulaanbaatar city's annual inflation accelerated during the first 4 months, peaking at 17.8%. This increase was mainly caused by rapid increase of meat prices; beef and lamb prices rose by 59.1% and 59.3% respectively from previous year. However, following April 2012 meat prices began to slowly fall, followed by a decrease in transportation prices in June.

Figure 11. Annual inflation

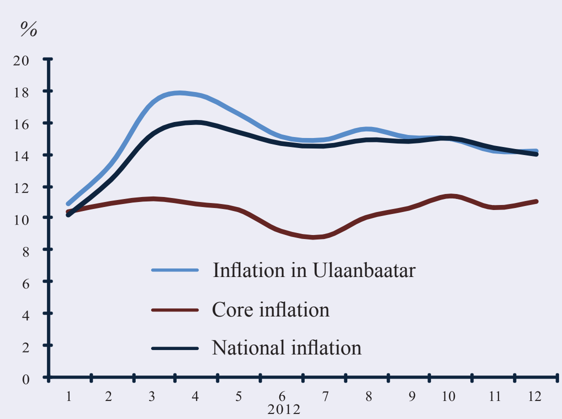
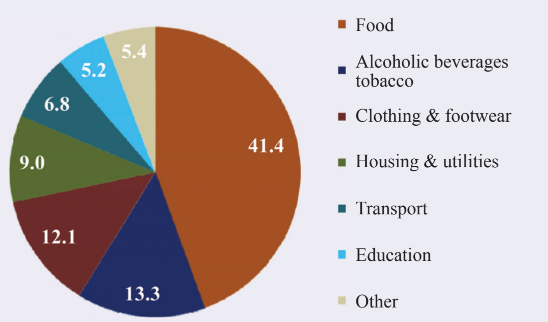


Figure 12. Contribution to annual inflation



Source: Bank of Mongolia

The CPI decreased in the H2 due to falling meat and transportation prices.

To measure demand and supply factors more precisely and separate them from supply shocks, items with higher volatility such as meat, milk products and vegetables were excluded from the consumer basket to calculate the core inflation. The year-on-year core inflation rose by 11.1%.

Financial sector development

Key performance indicators and prudential norms in the banking sector

As of the end of the reporting year, the banking sector is comprised of 14 commercial banks operating through their 1382 branches and units in Mongolia. The sector wide number of depositors grew by 264 thousand and reached a total of 2.1 million, while the number of borrowers grew by 8.4 thousand to reach 614.6 thousand.

Consistent with the accumulation of long term funding, growths in deposits along with long-term credits provided under the projects implemented by the Bank and the Government, the total liabilities in the banking sector reached MNT 10.2 trillion, an increase of 23.1% or MNT 1.9 trillion from the previous year. Due to this increase, the assets of the banking sector totaled MNT 11.4 trillion, up by MNT 2.2 trillion or 24.2% from the previous year. In terms of the assets composition, high quality liquid assets and cash accounted for 22.3%, short-term investments for 12.3%, loans outstanding for 58.6% and the remaining 8.8% were other assets.

Fluctuations in the liquidity ratio of the banking sector remained relatively stable over the course of the year, finishing at 38.7%. Cash balance and its equivalents reached MNT 2.5 trillion, a 24.9% or MNT 508.5 billion increase from previous year. Growing reserves held by banks at the Bank caused most of the cash balance increase. Short-term investments of banks leveled at MNT 1.2 trillion, an increase of 4.4% or MNT 49.6 billion. As of the end of the reporting year, investments by the banks in government bonds expanded 1.7 times reaching MNT 295.5 billion. At the same time, the volume of central bank bills has contracted by 14.5% to MNT 762 billion, allowing the allocation of liabilities to more liquid assets, thus reducing liquidity risk as a whole.

As of the end of 2012, total loans outstanding totaled MNT 6.8 trillion, an increase of MNT 1.4 billion or 25.2%, which accounted for 50% of the GDP. In regards to the quality of total loans outstanding, 96.2% or MNT 6.6 trillion was classified as performing, 1.6% or MNT 109.6 billion as past due. In terms of loans extended to the economic sectors, 16.6% or MNT 1.4 billion was given to the wholesale and retail trade, 14.2% or MNT 0.9 trillion to the real estate, 12.9% or MNT 0.8 billion to the construction sectors. Compared to last year, share of construction sector loans over the total loans rose by 1.2 percentage points, whereas the mining industry’s share of total loans declined by 0.6 percentage points.

Non-performing loans (NPL), the pertinent indicator for the quality of loans, decreased by MNT 19.6 billion in 2012, which marks an 11.7% drop to MNT 147.9 billion. As a result, the NPL ratio dropped by 0.9 percentage points to 2.2% from the previous year, indicating improvement quality of loans and its repayments as a result of improvements in the control process. In terms of the NPL ratio in the economic sectors, construction sector had 3.4%, mining sector had 2.9%, wholesale and retail trade had 2.9%, manufacturing had 2.3%, and real estate sector had 0.7%. The downside risk associated with Mongolia’s deteriorating economic conditions still persist, despite the high quality of total loans. According to the result of the stress test conducted by the Bank, if 5% of the performing loans deteriorate to non-performing, the capital adequacy ratio of the banking sector would decline by 4.2 percentage points.

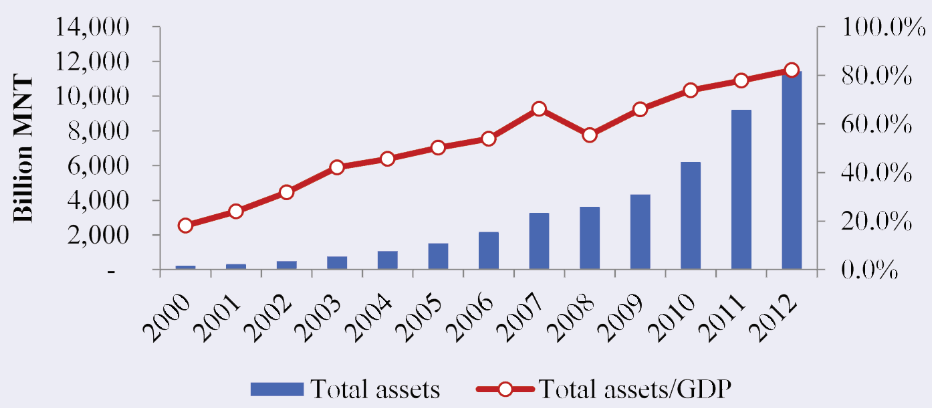
The current account, regarded as the volatile liabilities in the banking sector, increased by 1.3% to MNT 2.3 trillion, which is an MNT 30.7 billion increase from last year. The current account balances at banks stayed relatively stable throughout the year, in comparison to last year, where large capital inflows created instability. The private sectors' current account balance fell by 9.9% or by MNT 123.4 billion and totaled MNT 1.1 trillion, while the current account balance of individuals rose to MNT 464.8 billion, an increase of 27.5% or MNT 100.3 billion from year-earlier.

The confidence in the banking sector is growing. At the end of the reporting year, the total liabilities reached MNT 5.1 trillion, a 15.5% increase of MNT 683.3 billion from the previous year. Of which, time deposits from the private sector grew by MNT 120.8 billion or 29.9% to MNT 524.3 billion, while demand deposits grew by MNT 1.8 billion or 8.4% to MNT 23.8 billion. Deposits from individuals, which accounted for 74.9% of the total deposit, rose by MNT 527.7 billion, up by 16.1% from the beginning of the year to reach MNT 3.8 trillion by the end of 2012.

Liabilities from the interbank market grew by 33.4% or MNT 84.7 billion and reached MNT 338.4 billion. In addition, loans from the Bank expanded 2.4 times and totaled MNT 218.8 billion. The major factor for the expansion was due to the increase of credits issued under sub-projects implemented in conjunction with the Government.

As of the year-end, the amount of total capital in the banking sector totaled MNT 1.3 trillion, a 33.9% increase of MNT 320.9 billion, while the risk-weighted assets of the banking sector rose by 23.4% or MNT 1.5 trillion and reached MNT 7.8 trillion. The increase of banking capital was largely due to the profitability improvements of banks. At the end of the reporting year, banks' net profits were MNT 193.1 billion, a 12% increase of MNT 20.6 billion from the previous year. Despite the profitability improvements, due to the high growth rate of the banking capital, the core profitability ratio declined. That is, the return on assets of the banking sector declined by 0.3 percentage points and leveled 2.3 points, and the return on capital also fell to 15.2 points, a decline of 3.4 percentage points compared with the previous year.

Figure 13. Total assets



Source: Bank of Mongolia

Figure 14. Loan indicators in the banking sector
(In bln MNT)

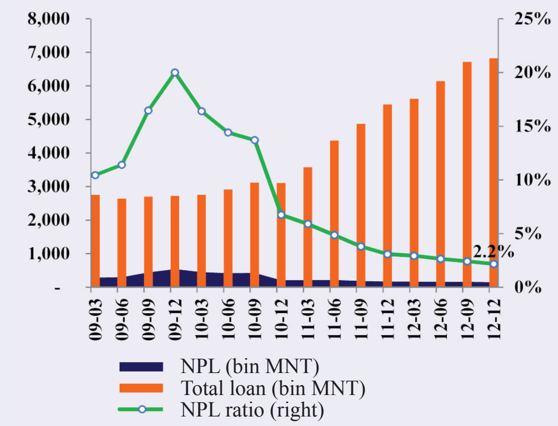
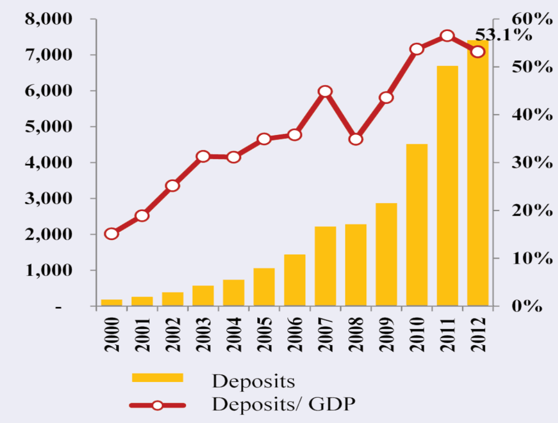


Figure 15. Deposits in the banking sector
(In bln MNT)



Source: Bank of Mongolia

Prudential indicators

In accordance with "The regulation on Setting and Monitoring Prudential Ratios to Commercial Banks" approved by the decree 460 of the Governor of Bank of Mongolia on 30 July 2010, the prudential norms encapsulating capital adequacy, liquidity, foreign exchange risk and credit concentration are calculated.

Capital adequacy

At year-end, the total and the tier-I capital adequacy ratios were 15.4% and 11.6% respectively. The ratios, on a year-over-year basis, decreased by 0.8 and 0.6 percentage points respectively and still are 3.4% and 3.6% higher than the minimum capital adequacy ratio standards. The decline in the ratios was largely due to the outpacing of the asset growth over that of the banking capital. The decision to increase the minimum paid-in capital requirement twice to MNT 16 billion in 2013 was an impetus to strengthen the ability of banks to withstand risks and broaden their scope of activities.

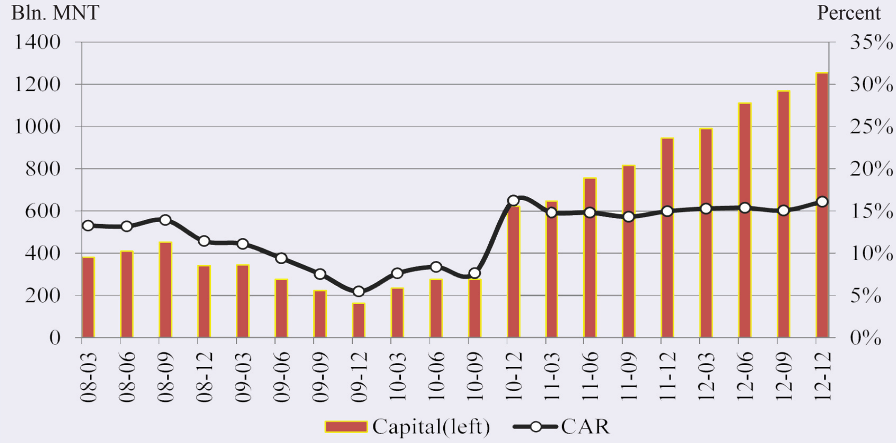
Liquidity

With the 691st decree by the Governor of Bank of Mongolia dated November 25th, 2011, the minimum liquidity ratio was set at 25% effective from January, 2012. As of the end of the reporting year, the ratio on a systemic level reached 38.7%, down by 0.3 percentage points from the previous year. The aggregate liquid assets held by banks reached MNT 3.9 trillion, up MNT 0.7 trillion and the total liabilities totaled MNT 10 trillion. The increase of liquid assets held was due to banks' growing investment in government bills and the reserves account at the Bank which led to a stable liquidity ratio.

Prudential ratios on foreign exchange operations

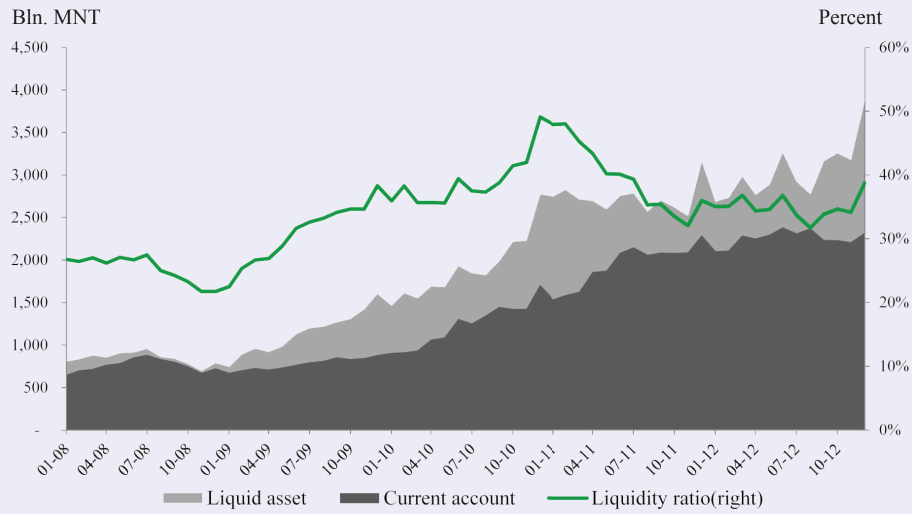
As required by the regulation, the ratio of net foreign currency open position to the capital shall be within +/- 15% for a single currency and within +/- 40% for total net open positions ratio by all banks. Prudential norms of foreign currency positions were -10.7% for a single currency and 17.3% for total net open positions as of the year end which are compliant with the minimum requirement set by the regulation.

Figure 16. Banking Capital



Source: Bank of Mongolia

Figure 17. Liquidity



Source: Bank of Mongolia

Box 1. Stress test analysis

The international practices show that the stress tests can be conducted both on macro and micro level. The purpose of the analysis is to prevent systemic wide risks and ensure the financial stability and the results show the level of adverse impact of shocks on the given sector. Whereas the macro level stress test estimates the impact of one macroeconomic variable on the other variables of the financial sector, the micro stress testing shows the level of impact of any given risk to the solvency status and prudential ratios of individual institutions. The below stress testing was estimated in terms of the two risks as shown below.

- Stress tests on credit risk
- Stress tests on liquidity risk

The scenarios for the analysis are generally selected on the basis of either *historical scenarios* or *direct hypothesis*. The scenarios for the credit and market risk analysis are selected to estimate the impact on the capital adequacy ratios, whereas the ones selected for liquidity risk were to estimate the level of impact of a shock on the liquidity ratios on both aggregate and stand-alone basis.

Figure 18. Credit risk stress testing

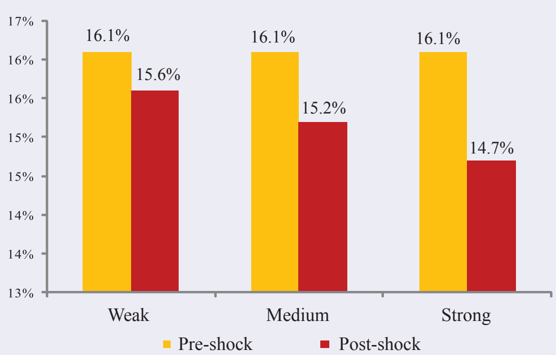
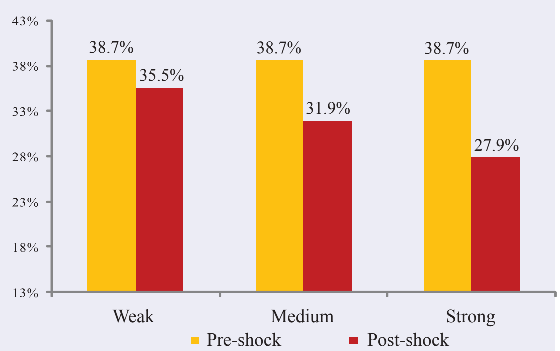


Figure 19. Liquidity risk stress testing



Note: The selected scenarios namely *weak, medium* and *strong* indicate the cases where each class of current loans outstanding except that of loss is downgraded by one notch by 10, 20 and 30 percent respectively. As for the ones for liquidity risks the scenarios are such that the outflows in the total liabilities increased by 5, 10 and 15 percent respectively.

The outcome for the credit risk stress test shows that in above three scenarios the current capital adequacy ratios are decreased respectively by 0.5, 0.9 and 1.4 percentage points. The results also show that the capital adequacy ratios, in all three cases, are 2.7-3.6 percentage points higher than the minimum requirement. The systemically important banks however seem more susceptible to shocks, yielding only 1.7-2.6 percentage points higher than minimum ratios.

As for the liquidity risk stress test, in all three scenarios, the liquidity ratios are expected to drop by 3.2-10.8 percentage points. That is, in all three scenarios the resulting figures are well above the minimum standards.

Capital Market

During 2012, the Mongolian Stock Exchange held 250 overlapping sales, total of 133.7 million shares of 149 companies worth MNT 144.7 billion, government bonds worth MNT 525 thousand in total of 5 bids, and 30.9 thousand corporate bonds worth MNT 309.7 million. Trade value of shares has increased by MNT 35.6 billion - a 32.6% jump from the previous year. The total market amounted to MNT 1800 billion, which was 12.9% of GDP. Tavan tolgoi, APU, Shivee- ovoo, Berkh-uul, Baganuur, and Sharyn-gol had the highest market capitalizations.

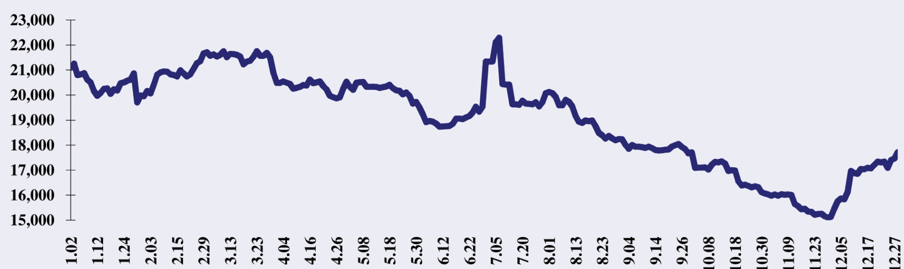
Table 6. Capital market transaction, billion togrog

	Transaction amount		Changes	
	2011	2012	Amount	Percent
Government bonds	236.7	0.0005	-236.7	-100
Shares	109.1	144.7	35.6	32.6
Corporate bonds	4.4	0.3	-4.1	-93.0

Source: Mongolian Stock Exchange

TOP-20 index was 17714.51 points at the end of the reporting year, down by 18.3% from the previous year. This decrease was due to the ease of share prices of the some companies in the index, such as Baganuur, Mogoin gol, Shivee ovoo, State Department store, Telecom Mongolia, Sharyn gol, and Tavan Tolgoi. The average TOP-20 index was 19071.87 points.

Figure 20. TOP-20 index



Source: Mongolian Stock Exchange

Total of 5 government bonds worth MNT 525 thousand with maturity date of 366 days, 7.5% annual interest rate, and MNT 100 thousands nominal value were traded.

“Mongol makh” bond, issued by “Just agro” company, with nominal value of MNT 10 thousand has been sold over 500 amounting MNT 5 million and 30.5 thousand bonds worth MNT 304.7 million on the secondary market, summing up MNT 309.7 million were traded.

In the reporting year, out of 150 companies whose shares were traded, the share price of 102 companies increased, those of 45 companies decreased, and share prices of 3 companies remained stable. An average of 535.2 thousand shares worth MNT 579 million were traded daily. Daily average trading volume was at 535.2 thousand, which is MNT 579 million.

Table 7. The most active securities (by trade volume)

	Securities companies	Volume /million/
1	Genco tour bureau	30.6
2	Khukh gan	19.5
3	E trans logistic	11.8
4	Berkh uul	10.8
5	Naco tulsh	8.9
6	Remicon	7.8

Source: Mongolian Stock Exchange

Table 8. The most active securities (by trade value)

	Securities companies	Value /billion/
1	Sharyn gol	54.3
2	Berkh uul	26.9
3	Shivee ovoo	9.7
4	Baganuur	9.2
5	B D Sec	8.1

Source: Mongolian Stock Exchange

1.4 State budget

Government finance

In the reporting year, budget revenue generated MNT 4968.3 billion (35.6% of GDP), expenditure and net lending rose by MNT 6043.9 billion (43.3% of GDP), resulting in an equilibrated overall budget deficit of MNT 1163.0 billion and an equilibrated current balance surplus of MNT 250.3 billion.

Budget revenue

Total budget revenue and grants reached 4968.3 billion, decreased by MNT 745.8 billion or 13.1% on projections. Total revenue rose by MNT 500.0 billion or 11.2% year-on-year. In comparison with the previous year, current revenue (97.4% of total revenue) increased by MNT 627.1 billion or 14.9%, which determined the total growth of revenue.

Tax revenue (86.8% of current revenue) reached 4201.7 billion, increased by MNT 533.4 billion or 14.5% from the same period last year. Goods and services tax revenue increased by 13.9% or MNT 198.8 billion, income tax revenue increased by 4.3% or MNT 36.2 billion and social security contribution increased by 45.0% or MNT 212.9 billion, which determined total growth of tax revenue. Tax revenue from foreign trade have decreased by MNT 10.0 billion from the same period last year. Non-tax revenue reached (13.2% of current revenue) MNT 639.1 billion, rose by MNT 93.7 billion or 17.2% from the same period last year. Revenue from dividends (25.5% of total non-tax revenue) increased by MNT 66.8 billion, taxes on oil petroleum revenue (16.8% of total non-tax revenue) increased by MNT 32.5 billion or 42.8%, which determined total growth of non-tax revenue.

Table 9. Total revenue (billion MNT)

Total revenue	Actual	2012		Annual change
		Projection	Action	
Total revenue and Grants	4,468.2	5,714.0	4,968.3	11.2
Stabilization fund	241.0	101.4	87.4	(63.7)
Total equilibrated revenue and grants	4,227.2	5,612.7	4,880.9	15.5
Current revenue	4,213.7	5,596.8	4,840.8	14.9
Tax revenue	3,668.3	4,979.1	4,201.7	14.5
Income tax	833.7	987.0	870.0	4.3
Social security contributions	473.4	567.8	686.3	45.0
Property taxes	17.2	19.2	21.6	26.2
Taxes on domestic goods and services	1,434.7	2,142.6	1,633.6	13.9
Taxes on foreign trade	337.4	566.0	327.4	(3.0)
Other taxes	571.9	696.5	662.9	15.9
Non-tax revenue	**545.4**	**617.7**	**639.1**	**17.2**
Capital revenue	**12.0**	**14.8**	**15.4**	**28.7**
Grants and transfers	**1.5**	**1.0**	**24.7**	**16.0***

** times*
Source: Ministry of Finance

Budget expenditure

In the reporting year, budget expenditure and net lending reached MNT 6043.9 billion, decreased by MNT 429.8 billion or 6.6% on projections. Total expenditure increased by MNT 1046.9 billion or 20.9% from the same period last year. Current expenditure (75.9% of total expenditure) grew by MNT 1353.7 billion or 41.8%, capital expenditure (22.9% of total expenditure) increased by MNT 103.5 billion or 8.1% and lending minus repayments (1.2% of total expenditure) grew by MNT 410 billion, which determined growth of total expenditure and net lending.

Table 10. Total expenditure (billion togrog)

Total revenue	Actual	2012		Annual change
		Projection	Action	
Total expenditure and net lending	4,997.0	6,473.7	6,043.9	20.9
Current expenditure	3,236.4	4,675.9	4,590.1	41.8
Expenditure on goods and services	1,504.5	2,195.6	2,209.7	46.9
Interest payment	37.3	151.6	126.4	238.7
Subsides and transfers	1,694.6	2,328.7	2,254.0	33.0
Capital expenditure	**1,280.9**	**1,812.6**	**1,384.4**	**8.1**
Lending	**479.7**	**-14.8**	**69.4**	**(85.5)**
Equilibrated current balance	**977.3**	**921.0**	**250.6**	**(74.4)**
Equilibrated overal balance	**-769.9**	**-861.0**	**-1,163.0**	

Source: Ministry of Finance

A breakdown of current expenditure shows that expenditure on goods and services (48.1%) increased by MNT 705.2 billion or 46.9%, while subsidies and transfers (49.1%) increased by MNT 559.4 billion or 33.0%, interest payments (2.8%) rose by MNT 89.1 billion or three times.

Other current transfers increased by MNT 463.8 billion, which determined growth of total expenditure subsides and transfers (49.1% of total current expenditure).

Box 2. Main indicators of banking in the local branch of the banks

As of the end of 2012 accordingly, local branch of bank's total asset is standing at 1711.9 billion MNT, increased by 16.3% or 239.5 billion MNT over the same period of the previous year.

During the year, total loan outstanding reached 98.1% of total asset, as well as 16.3% or 239.5 million MNT higher than the previous years' 1540.9 billion MNT.

If we see it by banks, 49.1% of total outstanding loans are from Khaan bank, 19.6% are from Savings bank, 13.8% are from Xac bank, 7.4% are from Trade and Developments bank, 5.8% are from Golomt bank and 4.4% are from other banks.

And by provinces, 9.2% of total loans are in Orkhon province, 9.0% are in Darkhan-Uul, 7.5% are in Selenge, 6.7% are in Dornogobi, 6.2% are in Umnugobi, 5.5% are in Khuvsgul and 56.1% are in other provinces.

Figure 21. Total asset

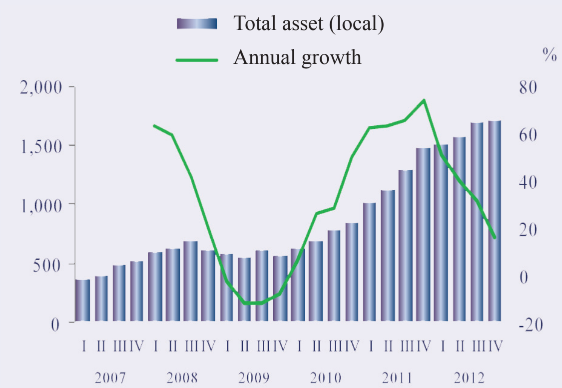
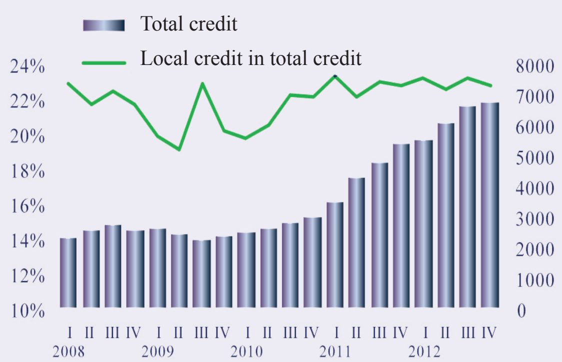


Figure 22. Total credit balance



Source: Bank of Mongolia

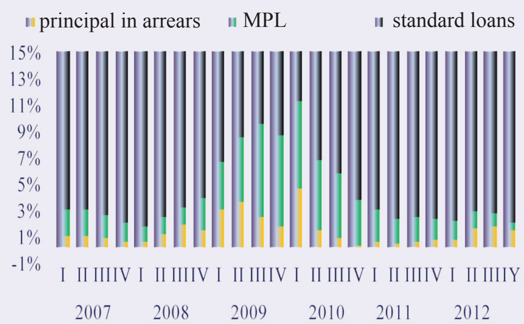
In terms of loan allocated to the economic sectors, 18.2% of trade and maintenance, 5.0% of agriculture, 4.8% of real estate, 4.0% of construction, 2.7% of processing manufacture, and 58.2% in order sectors. The amount of a loan debt in local banks consist of 98.1% of standard, 1.4% of past due in areas, and 0.6% of non-performing loan.

The total amount of liabilities reached to MNT 1589.1 billion and it was increased to 17.2% MNT 233.4 billion, compared to the previous year. In the end of the year, the total deposit was MNT 786.3 billion and the total amount of current account was MNT 297.0 billion.

The amount of total current accounts in local branches of banks constituted 14.5% of total current accounts in banking system and the amount of total deposits in local branches of banks constituted 16% of total deposits in banking system.

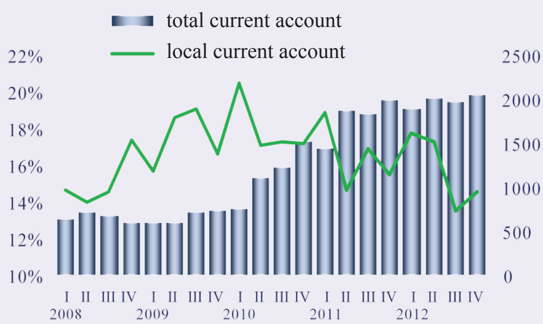
88.4% of total current accounts are in MNT, 11.6% are in foreign currencies. Total amount of deposits are completed by 69.4% of time deposits, 30.6% of timeless deposits and 96% of time deposits are in MNT, 4% are in foreign currencies.

Figure 23. Classification of total loan



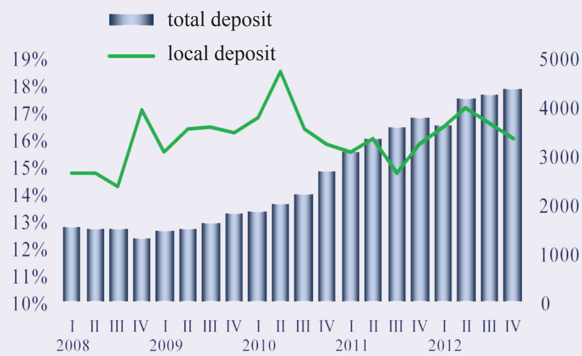
Source: Bank of Mongolia

Figure 24. Total current account



Source: Bank of Mongolia

Figure 25. Total deposit



Source: Bank of Mongolia

MONETARY POLICY IMPLEMENTATION 2

2.1 Monetary policy objectives, measures and outcomes

The Bank implemented the state monetary policy in an uncertain, risky, and volatile circumstances for both economic and financial markets such as increased uncertainty of a global economy, degraded investment environment in the region, negative changes made in legal environment of investment and arisen expectations related to the political election.

The main objective of the Bank is to maintain stability of the national currency measured by domestic inflation. Curbing inflation at a low and stable level has the benefits of preventing deterioration in purchasing power of the real sector, leading to sustainable economic growth, and creating a hospitable condition for higher mid-income household savings and lower lending rates, by motivating increased financial intermediation and sustaining financial stability.

Annual inflation rate for Ulaanbaatar city increased sharply in the first half of 2012, and reached 17.8% in April which was the highest level observed since the 1st quarter of 2009. However, in June 2012, price level acceleration has slowed down and the inflation rate decreased to 15.1% due to drop in meat price inflation. According to the break down analysis of Ulaanbaatar city's annual inflation for June 2012, price increase of meat and meat products, products with administered prices, and apartment rent have contributed by 7.4, 0.9 and 0.8 percentage points, respectively. Moreover, sequential increase in public sector wage by MNT 80,000 and 23% before the election of parliament and cash handout of MNT 660,000 for elders and disabled citizens from the Human Development Fund have played major role in increasing demand side pressure on inflation.

In the second half of the year, price of meat and meat products, the largest contributor of overall inflation, has stabilized and inflation rate declined to 14.2% at the end of the year - 4.2 percentage points higher than the target rate[1]. Factors such as meat price, alcohol and tobacco price and other administrative price increases, which cannot be manipulated by Monetary policy, have played major role in higher inflation, exceeding targeted level.

The Bank has taken necessary measures to serve the purpose of sustaining price stability, and facilitating macroeconomic and financial sector stability in the reporting year.

The Bank increased the policy rate twice by 0.5 percentage points to 13.25% and increased the required reserve ratio of commercial banks by 1.0 percentage point to 12% in the first half of 2012. The purpose of these tightening measures was to facilitate macroeconomic stability and decrease demand side pressure on inflation caused by extensive fiscal current expenditure and cash handout from the Human Development Fund.

In the second half of 2012, the Bank initiated “Price stabilization program” in conjunction with the Government in order to decrease the supply side pressure on inflation. The program consists of the following 4 sub-programs, which are “Stabilizing retail prices of oil products”, “SIFS sub-program on stabilizing the retail fuel price,” “Food price stabilization” and “Support for construction sector and housing price stabilization." In 2012, the Bank financed MNT 194 billion to entities which are contracted with the Government through commercial banks. In accordance with the program contracts, liquidity amounting to MNT 194 billion was granted to the program contractors via commercial banks.

As a result of policy measures taken in 2012 to reduce demand and supply side pressures, inflation rate reached 1.0 percent and 0.5 percent for national and Ulaanbaatar levels respectively in December, which was 2.3 and 1.5 percentage points lower that of the previous year. Hence, a sufficient condition for

[1] Monetary policy guideline 2012

maintaining inflation at targeted level for 2013 is formed.

The Government issued the very first USD 1.5 billion bond on the international market on December 2012, increasing the state international reserves. This action allowed the Bank to implement the monetary policy to support the real sector growth, decrease negative impacts of external sector to domestic market, decelerate the growth of prices of consumer products such as meat, flour and oil, and stabilize the economy by implementing counter-cyclical macro policy in 2013.

Box 3: Medium term Price stabilization program

The Government and the Bank has been cooperating on the approval and implementation of 4 sub-programs of the Price stabilization program with respective organizations in accordance with the "Memorandum of understanding to cooperate on the implementation of Price stabilization medium term program" that has been signed on October 22, 2012.

These sub-programs are implemented for the main purpose of eliminating supply shocks of main consumer products, thus reducing supply-driven inflationary pressures and creating market based system of product supplies in medium term that are in accordance with the implementation of the Operational plan of the Government for 2012-2016 as well as the State Monetary policy guidelines for 2013.

These sub-programs are to be implemented in two phases:

- **First phase:** Approval of sub-programs by the respective ministries, selection of firms for the program's implementation by the ministries, conclusion of on-lending activities agreements with participating commercial banks and issuance of approved financing by the Bank;
- **Second phase:** Issuance of on-lending activities on a subsidized term by the participating commercial banks after the review of the firms implementing the program.

Implementation of the programs:

1. Strategic import financing scheme (SIFS), aimed at stabilizing the retail fuel price

In order to stabilize retail fuel price through financing retail fuel import with minimum cost and minimizing the exchange rate risk of cost at the border, the Bank of Mongolia and the Ministry of Mining jointly launched the "SIFS" subprogram on October 26, 2012.

The main goal of the subprogram is to stabilize the retail fuel price through financing retail fuel imports with Bank of Mongolia's predetermined interest rate and minimizing its exchange rate related risks. Following objectives shall be met to achieve the subprogram goal.

1. *Retail fuel price is stabilized.*
   - *Financial cost is reduced.*
   - *Exchange rate risk is minimized.*
2. *Other objectives.*
   - *Fuel import tax is set based on the level of border price of fuel.*
   - *Stock reserving containers of oil products are built.*
   - *Reserve of oil products is increased.*
   - *Supply source of oil products is diversified.*

Table 11. Policy actions to be implemented

Objectives	Actions to implement
Stock reserving containers of oil products are built.	Create a legal environment for stock reserving of oil products and solve the financing issue
Reserve of oil products is increased.	Increase private sector's reserve of oil products
Supply source of oil products is diversified.	Identify the difficulties in importing oil from countries other than Russian Federation such as Korea and China, solve the problems and reduce the dependancy on single supplying country.
Tax scheme on oil products is restored.	Restore tax scheme on oil products and increase room for taxation

Source: Bank of Mongolia

Implementation process of the subprogram

According to the agreement, the parties shall evaluate the implementation each quarter. As of January 26, 2013, the results are following:

1. MNT 93.7 billion credit with 3.8% interest rate was granted to executing companies and forward contracts, which totaled USD 82.5 million, were made with the companies, which substantially reduced the exchange rate risk.
2. As a result of the Government Decree 126, total reserve of oil products has increased by two fold from the level before the implementation of the subprogram, which guarantees stable supply of the oil products.
3. Legal environment for taxation on oil products, imported by special license holders of exploring and mining companies, is provided.
4. Legal environment for retail sales of oil products with special permission is provided by making amendments to "Special permission of operations law" and "Petroleum products law".
5. Coherence between state agencies and oil sales companies is improved.
6. In order to diversify the supply source of oil products, procurement contracts with discounted terms were signed with several foreign companies and 20 thousand tons of oil products in total were imported as a result.
7. Public monitoring of reserve, price and processing industry of oil products is highly improved with the implementation of the subprogram.

2. Trade logistics and facility subprogram (TLF), aimed at lowering the costs of imported consumer goods

Efficient development and cost effectiveness of transportation and logistics systems is crucial to the competition in global environment and it directly influences price, cost and competitiveness of goods and services. For instance, in recent years, the limited capacity of domestic rail transport has been affecting price stability through causing shortage of certain goods and increasing business cost and risk.

Therefore, the Bank of Mongolia and the Government of Mongolia jointly launched the subprogram "Trade logistics and facility subprogram (TLF)" on October 26, 2012.The main goal of the subprogram is to smoothen the supply of imported customer goods and to limit the price increase by improving international trade transportation and logistics infrastructure. Following objectives shall be met in the period of 3 years.

Table 12. Objectives, measures and expected outcomes of TLF subprogram

№	Objectives	Measures to be implemented	Expected outcomes	Credit line amount
1	Increase in freight turnover of consumer goods and quicker processing of freight (Zamiin-Uud – UB)	*To put 2 special-purpose trains on rail with strict schedule*	*No less than 100 wagons per day are provided specifically for customer goods and 9000 tons of freight is transported between ZU-UB within 24 hours.*	-
		To manage physical handling (loading and unloading) with a special rule		
		To introduce a special program dedicated for reducing seasonal overload (such as new year etc.)	*Special program, which manages freight load, is put into operation.*	
2.	Lower transport cost	*To reduce the freight forwarding cost of consumer goods*	*Transport cost is decreased.*	-
		To open credit line to finance working capital of petroleum import of "Ulaanbaatar Tumur Zam" Mongolian-Russian Joint Stock Company (UBTZ)	*Fuel cost is decreased by up to 17%.*	Up to MNT22 billion
		To improve monitoring and management in order to reduce non-tariff related costs	*Proper measures are taken with related institutions.*	-
3.	Facilitation of freight transport between Tianjin and Zamiin-Uud	*To facilitate trans loading and other operations in Tianjin port*	*Proper measures are taken by Ministry of Road and Transportation.*	-
		To reduce freight forwarding time		
4.	Capacity enhancement of railroad wagon park	*To increase the capacity of railroad freight wagon park*	*Wagon park capacity is increased by 1000 wagons.*	Up to MNT136 billion
		To increase the capacity of locomotive park of UBTZ	*Locomotive park capacity is increased by 20 locomotives.*	Up to MNT 95 billion
5	Capacity enhancement of logistics terminal	• *To increase the capacity of Zamiin-Uud's rail and road freight terminals* • *To increase the capacity of Ulaanbaatar freight terminals*	• *Feasibility study is conducted and certified.*	-
			• *Ulaanbaatar and Zamiin-Uud rail, road freight terminals are extended in accordance with the certified feasibility study* • *Road, connecting Zamiin-Uud border with terminal 3, is put into operation.*	Up to MNT 50 billion

Source: Bank of Mongolia

Implementation process of the subprogram

As of January 26, 2013, implementation process of the subprogram is as follows:

1. The Objective 1, aimed at increasing freight turnover of consumer goods and quickening the processing of freight between Zamiin-Uud– UB, is fully implemented:

- Special-purpose train dedicated to transporting consumer goods is put into operation with strict schedule since October 29, 2012. As a result, 611,444 tons of freight in total was transported by 189 trains and10,554 wagons as of January 31, 2013.
- Rail services for enterprises and individuals engaged in import of goods are improved. In this scope, several works have been conducted, such as i) facilitation of trans loading process through revising the crew management, ii)advisory services to customers, iii)distribution of information to customers about arrival of freight in Ulaanbaatar by cell phone message, iv) measures to introduce "door-to-door" delivery services, and v) placement of extra trains on rail during overloading days.

2. In the scope of Objective 2, to reduce transportation cost, UBTZ's General Committee meeting was held on January 29, 2013 and agreed on taking a loan of MNT 22.0 billion from Bank of Mongolia through commercial banks. UBTZ is working on the petroleum import contract with Rosneft LLC.

3. Other objectives, facilitation of freight transport between Tianjin and Zamiin-Uud, and capacity enhancement of both railroad wagon park and logistics terminal, are in the beginning of implementation process as scheduled.

3. "Food price stabilization" sub-program

The Ministry of Industry and Agriculture and the Bank of Mongolia has been cooperating on the implementation of this sub-program since October 26, 2012 for the purposes of ensuring the stability of main food products' prices, introducing financial instruments to be collateralized by the balance in warehouses and developing a permanent framework based on the supply market. This sub program constitutes of the following programs:

1. "Meat accumulation and meat price stabilization" program:

This program has been started with its implementation of two phases for the purposes of achieving sustained stabilization of meat retail price by issuing subsidized loans of working capital to meat supply managers and ensuring stability in the supply side.

During the first phase of implementation, the selection process of "Meat supply manager" who are responsible for organizing the receipt, storage, retail packaging and selling of 14.0 thousand tons of frozen meat (Just-Agro Group) in Ulaanbaatar city in 2013 and each 1.0 thousand tons of frozen meat (Baataruud tenger LLC) in Darkhan city and (Erdmiit LLC) in Erdenet city has been held publicly by the Ministry of Industry and Trade. The selected supply managers have been issued MNT 87.0 billion of financing fully by concluding on-lending activities agreements with participating commercial banks in accordance with the program approved by the Bank.

In the second phase of implementation, participating commercial banks have conducted lending survey on the firms implementing the program and have concluded contracts. This has facilitated an environment to make use of lending channel effectively.

As of the end of 2012, the total amount of planned financing had been fully issued by the Bank via participating commercial banks.

2. “Flour price stabilization” program:

This program has been started its implementation with the purpose of ensuring the retail price stability of flour by issuing subsidized loans to flour mill factories for their purchase of newly-harvested wheat.

The same principle as applicable to the “Meat accumulation and meat price stabilization” program applies to this program. MNT 61.0 billion of financing has been started with its issuance via participating commercial banks to the 35 flour mill factories that have been selected by the Ministry of Industry and Agriculture in accordance with the program approved by the Bank.

As of the end of 2012, 39.3 percent of the total amount planned for financing had been issued via participating commercial banks.

3. “Food products’ storage and warehouse improvement and farming development” program:

The objective of the program is to create a hospitable condition for constructing plenty of storage and warehouses for food products up to the modern standard by issuing subsidized loans to private entities which are intending to construct those storage and warehouses. The Ministry of Industry and Agriculture is currently in the process of developing papers for the selection of projects to construct and expand storage, warehouses, wholesale and retail trading centers of food products and supporting farmings near Ulaanbaatar city.

4. “Support for Construction sector and housing price stabilization” sub-program

This sub-program is being initiated in cooperation with the Ministry of Construction and Urban Development with the purpose of stabilizing the housing prices and rental fees by ensuring the consistency of supply of and demand for housing; increasing the availability of housing that are in an healthy and safe environment, facilitating an environment of stable prices by providing sustainable supply of construction materials and developing a long-term sustainable framework for mortgage financing of housing via providing secondary mortgage market with sources of financing and supporting the demand for housing. The sub-program is being planned to be approved in January 2013 and hence, starts its implementation.

2.2 Financial stability

Banking sector development

Current status of the banking sector performance and policy measures

In the framework of strengthening the risk bearing capacity across banks and ensuring the financial stability, the Bank has been taking policy measures regarding the improvement of solvency of banks on a regular basis. For instance, the Bank adopted phase-in arrangements for the stance in a timely manner, allowing banks to gradually strengthen their financial positions, avoiding significant negative effects on their operations and the economy. The term "systemically important banks" was first defined and introduced in 2012 as the bank that holds more than 5% of the total banking sector assets where they were obliged to comply with the capital surcharge requirement set differently from other banks to be fulfilled gradually on a semi-annual basis. Thus, the capital surcharge was raised by 0.5% in June, 2012 up to

13% at the end of 2012 and will be raised again to 14%;within the first half of 2014. This requirement is virtually 6 percentage points higher than that required by the Basel Committee.

As demanded by the Bank, banks must hold no less than MNT 16 billion paid in capital by May, 2013. As of December 2012, eight banks have already met this condition, and the rest have submitted a capital restoration plan to the Bank in accordance with appropriate regulations, and their compliances are being supervised by the Bank.

According to the memorandum between the Government and the Bank, signed on October 22, 2012, four projects to stabilize the prices of a number of particular goods have been implemented. In this regard, the Bank created a flexible capital requirement scheme for project-participant banks by temporarily adopting certain measures to support their capital positions.

To replace the blanket deposit guarantee law that expired in November, 2012, protect bank depositors, bolster confidence in the depository institutions, provide a safety net that promotes financial stability, and reduce moral hazard, the Bank proposed limited deposit insurance scheme in line with the international best practices in 2012. Subsequently, the parliament passed the "The law on bank's deposit insurance" on January 10, 2013, allowing for the favorable deposit insurance scheme environment for the Mongolian financial sector.

Having foreign banks in domestic banking industry is beneficial for many reasons, including encouraging competition, reducing interest rate, providing better quality services, etc. However, no foreign bank is operating in Mongolia at present except representative offices of three foreign banks are currently in business. Therefore, in 2012, significant amendments made in "Regulation on Bank Licensing" and "Regulation on Bank Unit" by the Governor's 80th and 99th decrees respectively to facilitate a legal environment for foreign investments in the banking sector.

Under the World Bank technical assistance, preparatory works for amending "Comprehensive Regulation on Bank Accounting manual" with the goal of making it in accordance with the International Financial Reporting Standards were initiated.

To reduce credit risk, the Bank conducts credit information services via collecting and aggregating credit information from various sources, and providing the member banks and other institutions with references. Moreover, to comply with "Law on Credit Information", which was approved by the parliament in November, 2011, and enable the interested private entity to act as a credit information bureau, the Bank enacted the regulation on granting special permission to conduct credit information operation in 2012, creating the necessary legal environment for the business.

Box 4: Limited deposit insurance scheme

The blanket deposit guarantee law with the purpose of reducing deposit withdrawal, reassuring bank customers, and banking sector stability amidst the financial crisis in 2008, was enacted on November 25, 2008, and had been in effect since for four years that expired in November 2012. Since then, there had been open debates on how to deal with a stressed bank, protect customers from a bank failure. Due to inherent risk of banking business, it has be regulated, and supported when need arises. The main roles of specified state authorities are usually as follows

1. *Supervision and regulation*
2. *Lender of the last resort*
3. *Deposit insurance*

In the fall of 2012, a deposit insurance scheme with limited coverage was proposed by the "Deposit insurance law" working group comprised of representatives from the Bank, the MOF, and the FRC. The draft law was prepared and submitted again to the fall session of the parliament in 2012 (have been submitted numerous time before) and subsequently approved by the parliament on January 10, 2013. The new system allows for the legal environment of a mandatory insurance scheme for the protection of bank deposits, bolstering of the confidence in the depository institutions and providing a safety net that promotes financial stability.

The deposit insurance system has two core objectives:

- *The protection of small depositors: Although it is important for the depositors to choose the bank to invest their money by analyzing their financial statements through comparisons and thus ensuring the market discipline, this is somewhat limited for small depositors prompting the need to protect them.*
- *Ensuring financial safety net: The basic banking operation lies in mostly attracting short term funding and using them to invest in the long term assets making profits from the margin. This nature of banking operation also put banks at risk or maturity mismatch, and bank run caused by the asymmetry of information among depositors. The insurance system provides the degree of reassurance for insured depositors not to panic at the first sign of banking problems by disentangling the link between the failure likelihood of depositors and that of their banks. This also ensures stability in the banking system, and gives the regulator greater flexibility in resolving individual bank problems.*

Insurance scheme and its management-Rights and duties of Deposit Insurance Corporation

- *Compensation for depositors*
- *Determining and increasing deposit insurance premiums*
- *Risk assessment of banks*
- *Risk monitoring of banks*
- *Setting premium for each bank based on its risk level*

Scope of the deposit insurance scheme

- Mandatory for the all depositors,
- Compensation is payable to any citizens, firms, non-residents and non-Banking financial Institutions,

- Compensation is payable for demand and time deposits denominated in different currencies,
- Compensation is payable regardless of denomination of deposits,
- Compensation is payable in a net amount up to MNT 20 million.

Membership

- The mandatory deposit insurance scheme is conducted and managed by the Deposit Insurance Corporation
- Only banks licensed to carry out banking activities for deposits, and payment settlement services are eligible to join the deposit insurance scheme as a member.

Deposit insurance system

There are many structural set-ups for deposit insurance system (hereinafter as DIS) arrangements. They range from the simplest structure – paybox with the only mandate to collect premiums and make compensation payouts to depositors as need arises to the most complex structure known as the risk minimizer scheme with a broader mandate that include powers of controlling the entry and exit of members into DIS and carrying out supervision of insured institutions or to request to conduct relevant examination by the relevant authority, partake in failing banks' resolution process among many. In practice, there are the variations in the mandates of different DIS between paybox and risk minimize structure. The less widely used system, risk minimizer scheme is a result of continuous and over time developments.

Paybox *- To make compensation payouts to depositors* *- Currently 32 countries are using this scheme* • *Asia -4* • *Caribbean - 1* • *EuroAsia - 2* • *Europe - 19* • *Latin America - 4* • *North America - 2*	**Paybox - plus** - Additional mandates, such as risk assessment and monitoring - Currently 33 countries are using this scheme • *Africa - 2* • *Asia -6* • *EuroAsia - 2* • *Europe - 14* • *Latin America- 7* • *Other - 3*
Loss - minimizer - With a strategy to keep potential loss as low as possible - There is only one European country using this scheme	**Risk minimizer** - With a strategy to keep potential risk as low as possible, and policy options of early intervention and prompt corrective action. - Currently 20 countries are using this scheme • *Africa - 2* • *Asia -5* • *Caribbean - 2* • *Europe - 3* • *Latin and North America - 8* • *Other - 3*

Source: The International Association of Deposit Insurers

The deposit insurance scheme membership

As the international best practices show, in order to effectively implement the deposit insurance function into the financial safety net, a certain number of preconditions should be met such as an effective supervisory and regulatory mechanism, a well-designed resolution procedure for troubled financial institutions, and prompt corrective actions. Providing separate coverage for deposits held in different institutions is beneficial for reducing moral hazard. However, a burdensome task emerges to deal with multiple deposit accounts at different institutions held by the same person. Demirgьз-Kunt, Karacaovali, Laeven (2005) points out that 79% of surveyed countries uses per depositor, per insured bank deposit insurance arrangement.

International practice for setting maximum compensation limit

Setting a maximum compensation limit prevents deposits from placing their money into questionable banks that are offering higher deposit rates and incentivizing them to control the quality of banks. Therefore, a special attention should be given to its implications and design elements. In this regard, adequate compensation limit can be crucial for protecting small depositors, and providing a safety net that promotes financial stability.

According to the international practices, it is common that maximum compensation limit depends on GDP per capita of that particular country and is set around twice the size of GDP per capita. In addition, international institutions often recommend that maximum. If this practice were followed, the maximum compensation limit of the Mongolian deposit insurance scheme would have been MNT 5 million. Furthermore, the international standards on deposit insurance suggest that the limit should be as low as possible, and at the same time, be able to provide depositors with enough confidence. The International Association of Deposit Insurers recommends that the limit should target 80 percent of all the depositors, and 20 percent of the total deposit amount held in financial institutions (IADI DP 2009). During the recent financial crisis, many countries progressively increased maximum compensation limits for their deposit insurance schemes.

If deposit insurance is voluntary, high-risk banks tend to join deposit insurance scheme, and low-risk banks tend to not join scheme. This reduces efficiency of deposit insurance and creates adverse selection problem. Demirgüc-Kunt, Karacaovali, Laeven (2005) also found that 75 out of 82 surveyed countries use mandatory deposit insurance arrangement.

Banking supervision

On-site examination

All operationally active banks were subject to full-scope, on-site examinations in accordance with the “Official on-site examination schedule by the Bank in the year 2012” approved by the Governor. Also, additional on-site examinations were conducted on the State, Capitron and Trade and Development banks. During the reporting year, of the total of 17 full-scope on-site examinations conducted, 13 final examination reports were duly presented to the Board of Directors and after which the official decisions were made. As the 726th decree of Bank Governor of the Bank in 2011 stipulates, the status of the compliance of raising the Tier I capital adequacy ratio by 2.0 percentage points to 8% and raising the total capital adequacy ratio for systemically important banks by 1 percentage point to 13% have been monitored accordingly throughout the year.

Moreover, series of inspections were conducted by the Supervision department including on the implementation status of “The lower lending rate environment sustenance program” as approved by the Bank Governor’s directive on Khaan, Golomt, Chinggis Khaan and Transport and Development banks, on the operational compliance of Khaan bank’s Securities settlements systems and on the foreign exchange operations of 8 designated banks as approved by the joint decree of the Bank Governor and the Chairman of the FRC.

The inspections above revealed numerous violations and breaches in the forms of falsely classifying the credit and its equivalentsl assets against the provisions of the regulation, insufficient loan loss provision, failure to accrue loan interest accordingly, violation of the prudential ratio limits, false submission of the financial statements and the information incorporated on the credit information bureau, the breach of accounting regulations and the international accounting standards, unduly imposing customers to receive other banking services and products as the provision in the agreement, late or the non-disclosure of the audited financial statements to the public within the deadline, inadequate workout or the recovery procedures on defaulted assets and the failure of registering required legal to the Bank.

As countermeasures to these breaches, banks in question were obliged to prepare and implement capital restoration plans subject to the review of the Bank, who can restrict if necessary, to receive deposits other funds, require banks to avoid any attempt in the forms of borrowing by pledging the placements on other banks and financial institutions and issuing guarantees that may exhaust liquidity sources, improve the internal control system, raise the Tier-I capital in line with the asset growth, curb and lower the non-performing assets, prohibit the foreign currency settlement and payment operations, comply with the single borrower and the bank’s related party limits, require banks to submit their information to the credit bureau in a timely manner, ensure its integrity, lower credit concentrations, comply with the prudential ratios, have more than 5 Board members, develop the IT inspection risk management system, restrict the loan origination and extension by banks, the compliance and fulfillments of which were monitored accordingly.

The total of 553 reports by the Bank regional branches on the inspections of the bank branches and units and the subsequent corrective measures were submitted and evaluated accordingly.

Therefore, as appointed by the Director General of Supervision Department three inspections carried out as well as the analysts were designated to inspect the activities on the specific subject matters. In order to expedite the follow-up processes on the inspected banks and their related documentations and the materials, “The regulation on the tasks of Supervisory council next to the Bank Governor” was issued by the Bank governor and compliance of the regulation is being carried out regularly.

Off-site surveillance

In the reporting year, the off-site surveillances were conducted on the basis of the monthly submitted financial statements by banks, the results of the on-site examinations and orders and tasks decreed by the Bank Governor and the special inspection unit was established to monitor liquidated banks until the completion of the winding-up process.

As required by the Article 38 of the Banking Law of Mongolia, the compliance of the disclosure of financial statements of banks have been monitored regularly, while the general template of the disclosure forms are being developed currently to facilitate the surveillance process.

Throughout the off-site surveillance procedures the official cease and desist orders, fines, sanctions to rectify the violations by banks, require making adjustments to the faulty transactions such as loan allowances established below required level, violation of the accounting regulation and other misconducts relating to the false submission of the relevant information.

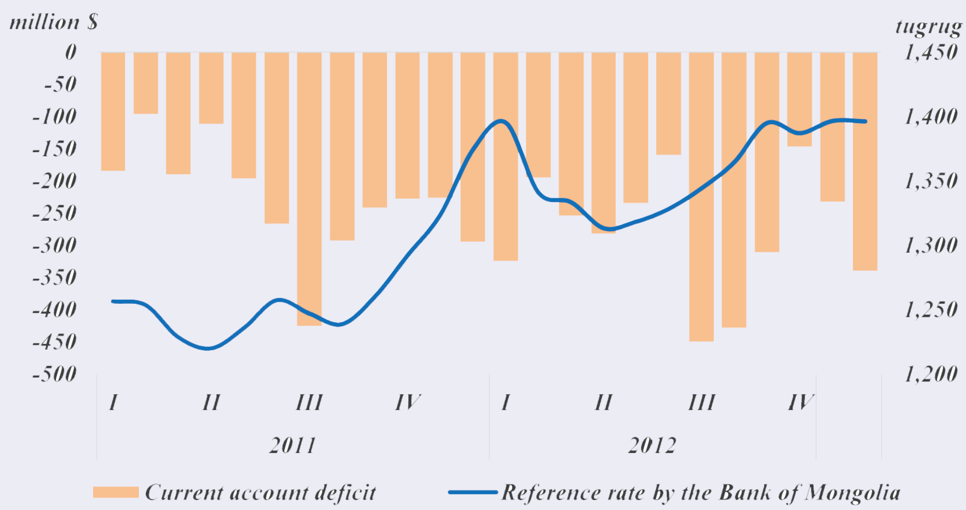
2.3 Exchange rate policy

A managed floating exchange rate regime contributes to sustainable mid and long-term economic growth and prevents crises by providing cushion in case of an adverse external shock via exchange rate and establishing macroeconomic equilibrium in the market in an economic way. Therefore, under the monetary policy framework of the last few years: The Bank has continued to pursue a floating exchange rate regime and allowed it to be set consistent with macroeconomic fundamentals.

In 2012, the economic growth accelerated to 12.3%, the bank loans growth rate reached 24%, and Government budget expanded by 42%. As a result of the expansionary fiscal policy, aggregate demand increased by 20%, adding to the upward pressure of prices of goods, and further weakened the MNT since June 2012.

Furthermore, the current account deficit widened to USD 3.4 billion in 2012, which is a 1.2 times increase from the previous year. The trade deficit increased by 1.2 times to USD 2.7 billion and the net exchange flow to the economy decreased by 2.0 times or by USD 429 million from 2011, equivalent to USD388 million.

Figure 26. Current account deficit and MNT rate against USD



Source: Bank of Mongolia

Thus, macroeconomic fundamentals have driven the MNT depreciation. Major factors that contributed to MNT depreciation are rise in aggregate demand stimulated by expansionary fiscal policy, imports, current account deficit, weakening of macroeconomic fundamentals, adverse changes in the external environment such as a fall in the terms of trade[2] and as well as uncertainty surrounding parliament elections[3].

2 The terms of trade was 1.355 in the end of 2012, which was a decrease by 23% from that of the previous year.

3 Tendency that uncertain expectation of foreign investment arises in the year of parliamentary election. Paper by the Bank of Mongolia, 2011

The Bank intervenes in the FX market to smooth excessive volatility, to ensure stability in the market, and to create a favorable operating environment for businesses for the purpose of sustainable growth in economy. In the first half of 2012, the Bank implemented the policy of increasing foreign exchange reserves to avoid excessive appreciation of the MNT and from October 2012, the Bank sold foreign exchange reserves to the market in order to smooth the short term volatility of MNT and fixed the distorted expectations in the market. Therefore, in the reporting year the foreign exchange market has been relatively stable.

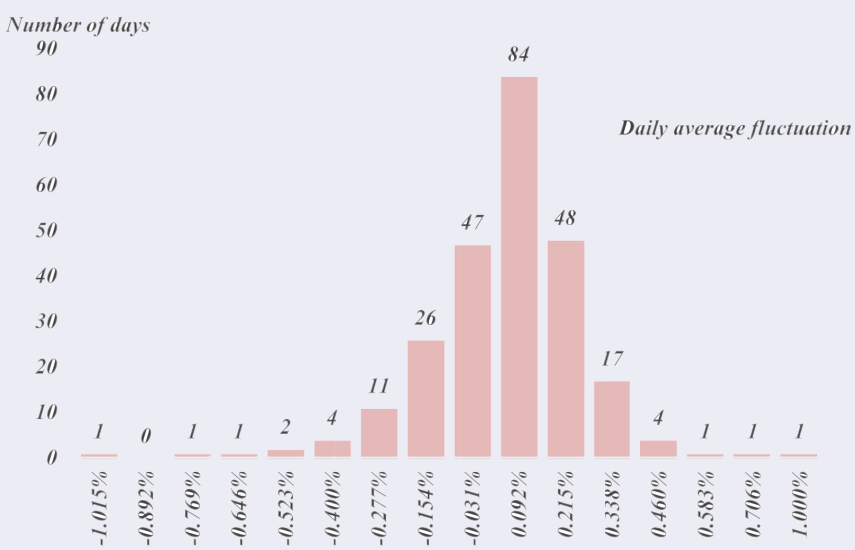
The Bank and People's Bank of China have signed the Amendment to the Biletal local Currency Swap Agreement to expand the swap scale from CNY 5 billion to 10 billion in 2012.

It was particularly significant in providing liquidity of CNY when needed, and in maintaining the stability of the foreign exchange and financial markets by intervening to domestic market when risk of high volatility was triggered in the market.

The Parliament of Mongolia approved a resolution to release Government Bonds in October 2012, Government sold "Chinggis Bond" worth of USD 1.5 billion in debt at international debt markets in December 2012 successfully. As a result, the foreign exchange reserves reached USD 4.1 billion for the first time.

As of December 31th 2012, MNT's reference rate against USD by the Bank of Mongolia was 1392.10, indicating 0.4% appreciation from that of the beginning of the year. During the reporting period, the average daily volatility rate was 0.14%, whereas the average daily appreciation and depreciation rates were 0.16% and 0.13% respectively. Daily volatility of MNT rate against USD did not exceed 0.2% during 72% of total period and only for 2 days the volatility was over 1%.

Figure 27. Frequency of daily fluctuation in MNT against USD



Source: Bank of Mongolia

2.4 Foreign exchange reserve management

The Bank bases its decisions on the three criteria of safety, liquidity, and return when investing its foreign exchange reserve assets. The safety requirement is met by holding a substantial part of our portfolio in instruments issued by top rated institutions and a high level of liquidity is achieved by holding a large part of our foreign currency reserves in the world's most liquid currencies and securities markets. Only after fulfilling objectives of safety and liquidity, the Bank seeks to optimize its return.

During the fiscal year, the Bank carried out its foreign exchange reserve management in accordance with the generally accepted asset management principles and within the scope of established risk limits. In terms of general structure, the Bank defined its foreign currency asset composition, foreign currency investment composition, optimal investment duration, and eligible financial instruments. Financial due diligence has been conducted on capital markets periodically to assess systematic risk, credit risk and other key investment risks. Moreover, global market has been studied thoroughly and conferring investment reports have been published regularly.

With the Eurozone debt crisis threatening to worsen and major developing economies' such as the United States and Great Britain's stability still quivering, the Bank prioritized its assets' safety by investing in major reserve currencies, allocated and unallocated gold, current and deposit accounts with central banks and money market instruments issued by supranationals. The Bank took conservative risk averse approach when investing in foreign corporate banks and financial institutions and it has only proceeded to invest in entities with high investment grade credit ratings.

In order to overcome ongoing economic difficulties and to strive for sound economic growth, The Federal Reserve System and European Central Bank have consistently pursued expansionary monetary policy. Consequently, major policy rates have been kept at its historic lows. Therefore, in view of low yield and high interest rate risk environment, reserve management's investment horizon was lowered to short-term or investment duration of up to one year.

The Bank worked thoroughly with other central banks and the World Bank Treasury to advance its current reserve management practice.

In 2012, duration of foreign-exchange reserve investments was set at 0-1 year to minimize interest rate risk due to European debt crisis and slowdown in the US economic growth. In terms of currency composition, the Bank had reduced its holdings in Euro denominated assets due to the continuation of European sovereign debt crisis.

To ensure safety of foreign-exchange reserves as stipulated in the "Law on Central Bank (Mongolbank)", the Bank invested its' foreign exchange reserves in money market instruments of BIS (Bank of International Settlements) and sovereigns and central banks of the United States, Japan and France.

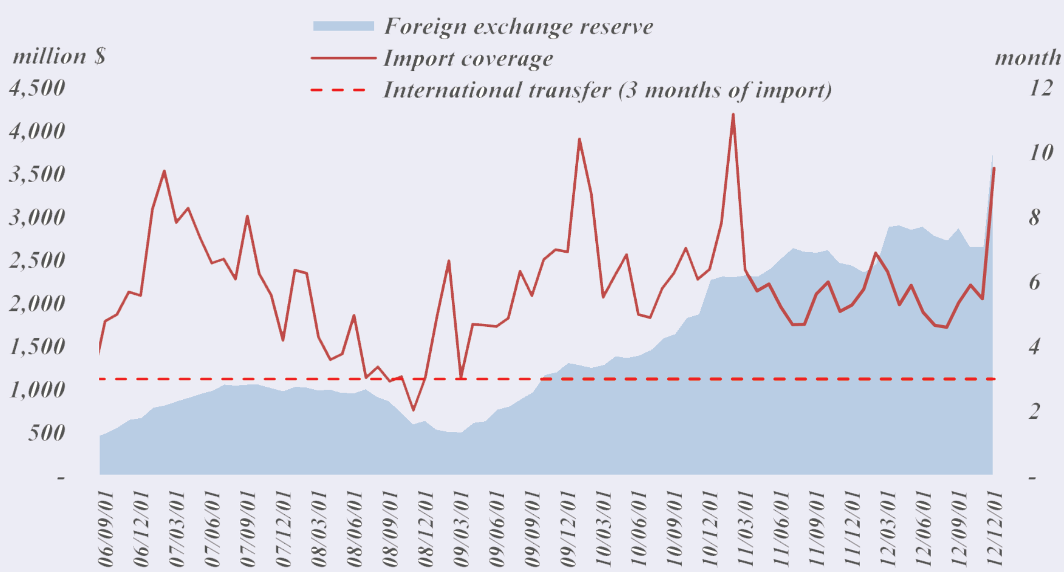
In 2012, major central banks kept its policy rates at historic low levels. Ensuing European debt crisis led to downgrades in credit ratings of European countries and thus increased safe haven demand for German Government securities and other Central bank investments, which marked negative yield in the Euro. As a result, the interest income of the foreign-exchange reserves decreased in the year of 2012.

As of December 28, 2012, the foreign-exchange reserves reached USD 4,121.8 million, an increase of USD 1,274.4 million from the previous year. This level satisfies the measure of international standards that requires meeting 12 weeks of import payment in the following ways:

- *37.45 weeks of actual foreign currency denominated import payment of December, 2012.*
- *32.74 weeks of foreign currency denominated import payment of the last 12 months' average imports.*
- *25.91 weeks of import payment of balance of payments' projection for the year of 2013.*

Liabilities to the foreign exchange reserves stood at 46% or USD 1,884.9 million, up USD 1,409.52 million year to date. Commercial banks increased their current account and demand deposit holdings by USD 109.4 million and government holdings increased by USD 1,492.8 million.

Figure 28. Foreign exchange reserve



Source: Bank of Mongolia

Commercial banks credited their demand deposits at the Bank by USD 2,744.7 million and debited by USD 2,495.7 million. Government accounts were credited by USD 1,536.1 million and debited by USD 124 million.

Proceed from the Government bond auctioned at an international market accounts for USD 1,500.0 million.

Return on foreign reserve management investments totaled USD 4.36 million, of which USD 3.8 million is from interest income on demand deposits, time deposits, and short- term securities, and USD 0.57 million is from foreign exchange and precious metals trading.

2.5 Payment and Settlement System

Payment system

The Bank is pursuing a policy aiming to ensure the safety, stability and efficiency of the payment and settlement systems, promote the use of non-cash payment, and support the development of financial market infrastructures.

In order to strengthen legal basis for the payment systems, the Bank policy on payment system has been updated in consistency with Principles for Financial Market Infrastructures issued by the CPSS/IOSCO. Furthermore, in cooperation with Deutsche Bundesbank, the Bank organized a seminar for members of the National Payment System Council (NPSC) which highlighted the renewed standards and principles.

“Technical Requirement for Back-up Site Installation of Payment System Participant” was defined by the Bank to improve the safety and stability of the payment and settlement systems.

With the ADB financial support, the Bank of Mongolia implemented a project “Transformational Mobile Banking Services” to promote the use of non-cash payment instruments, establish a robust legal framework for the system, and support the cooperation among the system participants. Professionals from banking and financial institutions, along with specialists from information technology authorities, developed the "Policy on Mobile Banking and E-banking Services", which has been discussed at the meetings of the NPSC and approved by the joint decree of the Bank, Financial Regulatory Commission, and Communications Regulatory Commission.

Table 13. Interbank transaction volume and value for 2008-2012, quarterly
(volume in thousand, value in trillion MNT)

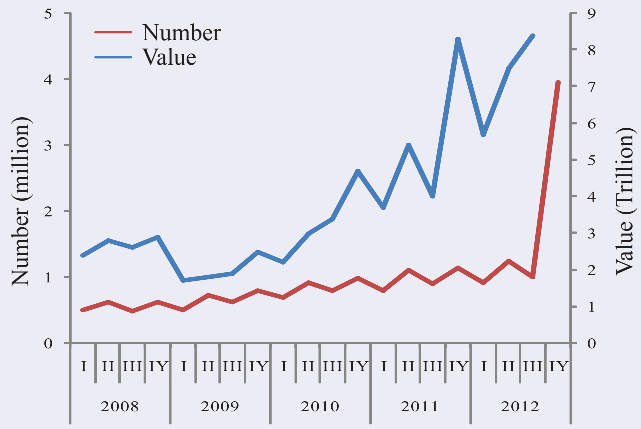
	2008		2009		2010		2011		2012	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
I quarter	499.9	2.4	502.0	1.7	693.8	2.2	798.6	3.7	914.9	5.7
growth (%)	*32.0*	*70.4*	*0.4*	*-29.1*	*38.2*	*25.8*	*15.1*	*68.2*	*14.6*	*53.8*
II quarter	633.6	2.8	715.9	1.8	908.9	3.0	1 077.5	5.4	1 249.4	7.5
growth (%)	*31.2*	*49.6*	*13.0*	*-35.6*	*27.0*	*69.6*	*18.5*	*80.0*	*16.0*	*38.5*
III quarter	494.3	2.6	626.2	1.9	801.9	3.4	903.6	6.0	1 018.5	8.4
growth (%)	*20.0*	*47.0*	*26.7*	*-24.4*	*28.1*	*74.2*	*12.7*	*73.5*	*12.7*	*40.2*
IY quarter	624.2	2.9	800.3	2.5	983.1	4.7	1 139.3	8.3	3 954.9	9.0
growth (%)	*14.2*	*-0.4*	*28.2*	*-13.6*	*22.8*	*86.2*	*15.9*	*76.6*	*247.1*	*8.4*
Total	**2 252.0**	**10.7**	**2 644.4**	**7.9**	**3 387.7**	**13.2**	**3 919.3**	**23.4**	**7 137.8**	**30.6**
growth (%)	***23.6***	***34.4***	***17.4***	***-25.4***	***28.1***	***66.5***	***15.7***	***77.3***	***82.1***	***30.7***

Source: Bank of Mongolia

Comparing with the previous year, interbank transactions in 2009 increased by 17.4% in volume, but decreased by 25.4% in value; however, the numbers increased by 28.1% and 66.5% in 2010, by 15.7% and 77.3% in 2011 and by 82.1% and 30.7% in 2012 respectively.

Transaction volume and value have been constantly growing since 2009; thus, transaction value dramatically rose in the second half of 2011 and transaction volume in the IV quarter of 2012 increased by 3.8 times from the previous quarter and by 3.5 times from the same period of the previous year.

Figure 29. Interbank transaction volume and value for 2008-2012, quarterly



Source: Bank of Mongolia

Payment card

The national brand "₮" card, named as the symbol of the national currency tugrik, was introduced to the market as a result of the successful cooperation with commercial banks. Launching the national payment card as a payment instrument enabled prompt payments from citizens to the government agencies, including the state registration, customs and tax offices for public services. It also provides an opportunity to allocate salaries and wages, social benefit and other payments from the government to citizens.

Following the Resolution of the Government, National Electronic Transaction Center of the Bank is allocating money from Human Development Fund to children's bank accounts. Citizens are able to withdraw money granting from the Human Development Fund, using the national payment card for children named "Ireedui".

Within the scope of promoting the use of the payment card, the Bank has allowed member banks of its centralized card network to accept UnionPay cards for payments, by signing a cooperation agreement with UnionPay International Co.,Ltd.

The data of card payments indicates a significant increase in card usage every year except for payments at POB terminal. It means that the use of non-cash payment instruments is being increased constantly.

Table 14. Usage of payment cards

Number of cardholders					
	2010	2011	2012	Rural region	*Growth (%) 2012/2011*
Cardholder	1 538 336	2 169 838	2 855 378	1 162 657	*31.6*
Active cardholder	670 887	440 177	1 123 041	373 781	*155*
Number of devices					
	2009	2010	2011	2012	*Growth (%) 2012/2011*
POS	3754	4418	5624	7210	*28.2*
POB	1186	1576	2354	2384	*1.3*

ATM	292	367	634	915	*44.3*
Others	417	412	373	316	*-15.3*

Volume and value of settled payments, by each device (*million, billion MNT*)

	2009		2010		2011		2012		*Growth (%) 2012/2011*	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
POS	1.4	100.3	2.7	233.8	5.9	448.8	10.3	735.1	*74.8*	*63.8*
POB	3.2	453.5	2.2	376.5	2.2	515.5	1.7	557	*-21.1*	*11.9*
ATM	15.3	874.9	22.1	1541.5	36.7	2603.8	57.4	3993.2	*56.4*	*53.4*
Total	19.8	1428.7	26.9	2151.8	44.8	3568.1	69.5	5305.3	*55*	*48.7*

Source: Bank of Mongolia

2.6 Regulatory reform in the banking sector

The Parliament of Mongolia passed the Law of Credit Guarantee Fund of Mongolia on 10th of February 2012. Purpose of the Law of Credit Guarantee Fund of Mongolia is to lead to the balanced development of the national economy by extending credit guarantees for the liabilities of promising SMEs which lack tangible collateral to secure financing. The Mongolian Credit Guarantee Fund provides credit guarantees to small and medium sized enterprises with a transparent, reliable and quick service and to extend credit guarantee services for the liabilities of promising enterprises which lack tangible collateral, to generate and maintain employment, to ensure a stable economy for the general public and to stimulate sound credit transactions through the efficient management and use of credit information.

In 17th of May 2012, The Parliament of Mongolia passed Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors (Foreign Investment in Strategic Sectors Law).

A law that regulates foreign direct investment into a number of key sectors of strategic importance which includes mineral resources, banking and finance, media and communications.

This law does set up a process of review and approvals for significant investments into those industries of strategic importance to the country.

On the law on personal income tax of Mongolia added new amendments on October 25, 2012.

Interest income on savings of Mongolian citizen other than interest income from demand deposit and time deposit for a year or less than a year total amount of which exceeds MNT 100 million, until January 1, 2016 shall be exempt from tax.

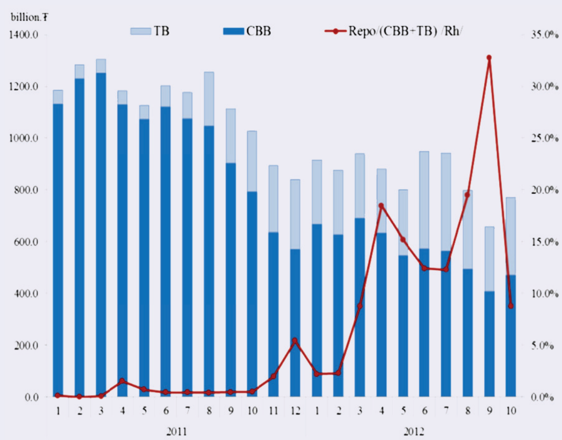
MONEY MARKET OPERATIONS

3

3.1 Central bank bills

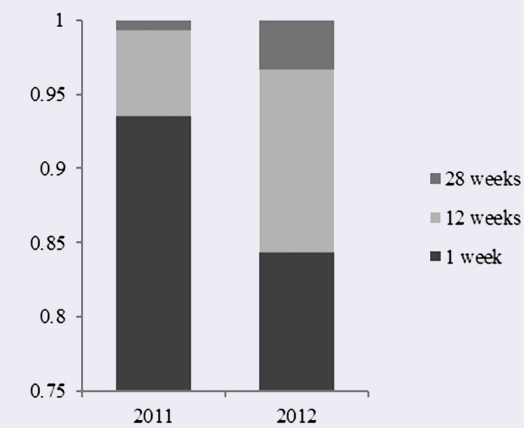
The main instrument of the Bank in managing the liquidity in the banking system is the Central bank bills (CBBs). The Bank conducts CBBs trading based on the demand and supply for liquidity in the banking system and this affects market interest rates. CBBs have maturities of 1, 12 and 28 weeks. The trading of CBBs with 1 week maturity is conducted through the procedure of fixed rate tender, while the trading of CBBs with maturities of 12 and 28 weeks are conducted following the procedure of variable rate tender. In 2012, the Bank traded 8.58 trillion togrog of CBBs which was 3.4 times lower than the amount of CBBs traded in 2011. (Figure 30) The percentage contribution of CBBs with maturities of 12 and 28 weeks rose in 2012 when compared to the previous year. (Figure 31) As the end of 2012, the weighted average rate of CBBs was 15.47 percent; of which the rates of CBBs with 12 and 28 weeks maturities were 16.45 percent and 16.82 percent respectively.

Figure 30. Holdings of Central bank bills and Treasury bills by commercial banks



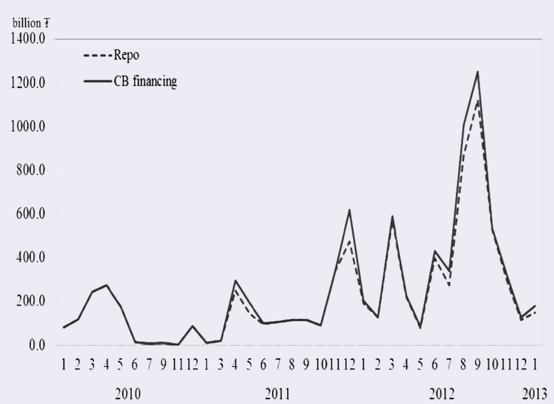
Source: Bank of Mongolia

Figure 31. Components of Central bank bills



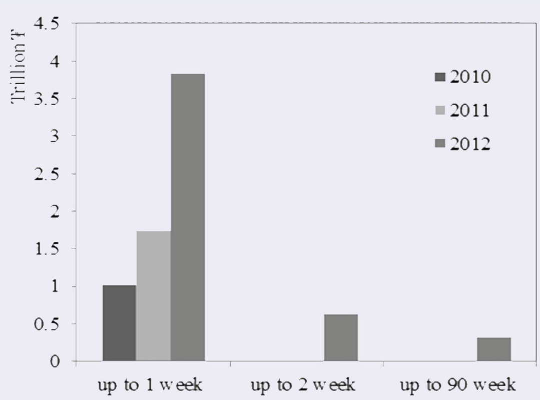
Source: Bank of Mongolia

Figure 32. Total financing issued by the Central bank



Source: Bank of Mongolia

Figure 33. Financing by the Central bank, by maturities



Source: Bank of Mongolia

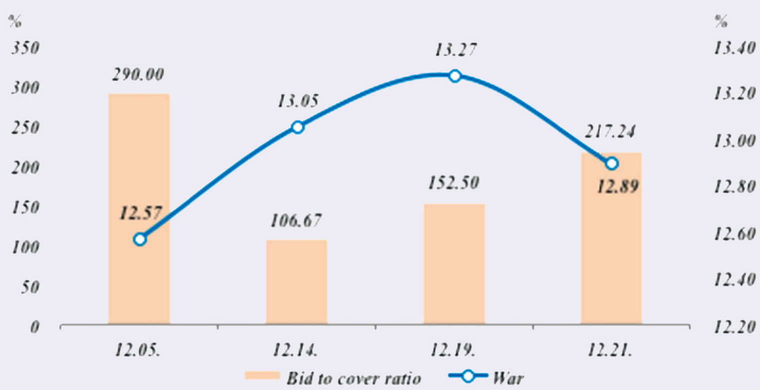
3.2 Central bank financing

As a lender of last resort, the Central bank's lending to commercial banks increased by 2.6 times in 2012 than the previous year. (Figure 32) MNT 5.25 trillion of financing in total was issued through the Central bank's standing facilities; of which repo financing contributed 91.5% and overnight credit occupied the remaining 8.5%. Approximately 80% of the Central bank financing had maturities up to 7 days. (Figure 34)

The amount of repo financing took up 32.7 percent[4] of the total bills[5] due to lower amount of sources for liquidity in the banking system and increased financing issued by the Bank in 2012 compared to the previous year. (Figure 31)

3.3 Government treasuries

Figure 34. Weighted average rate and bid to cover ratio of 12 week GTB



Source: Bank of Mongolia

In October 25, 2012, the Bank and the Ministry of Finance approved the regulation on issuance and distribution of Government securities, which is aimed to improve the Government's financial management and to develop monetary policy instruments. The main purpose of this regulation is to settle the relation arising from the sales of the Government treasuries through Bank to the public.

According to this regulation, citizens and companies are allowed to participate in the Government bond[6] auction through domestic commercial banks and invest in Government Treasury bill[7] (hereinafter referred to as GTB). Face value of Government treasury is MNT1.0 million.

In December 5, 2012, the Bank successfully organized the first GTB auction and held 7GTB auctions thereafter.

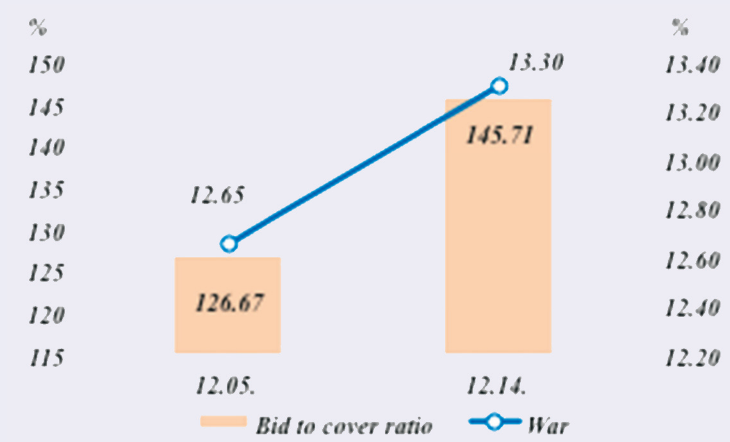
Figure 35. Weighted average rate and bid to cover ratio of 28 week GTB

4 32.7 percent of total bills were used as collateral for the Central bank financing in the third quarter of 2012.

5 Central bank bills and Government bills

6 "Government bond" is referred as more than one year maturity Government debt which is issued by Mongolian Government. Government bond is issued and paid by face value and sold by premium or discounted price which is determined in the primary market. Government bond has semi annually coupon payment.

7 "Government Treasury Bill" is referred as one year and less than one year maturity Government debt which is issued by Mongolian Government. GTB is issued by face value and sold by discounted price in the primary market.



Source: Bank of Mongolia

The auction date of Government treasuries shall be posted on the Bank and the Ministry of Finance's official webpage on January 31st and June 30th by half-year issuance. Also, regulations related to Government treasuries of primary and secondary market and information on the result of auction shall be published on those web pages.

3.4 Foreign exchange market

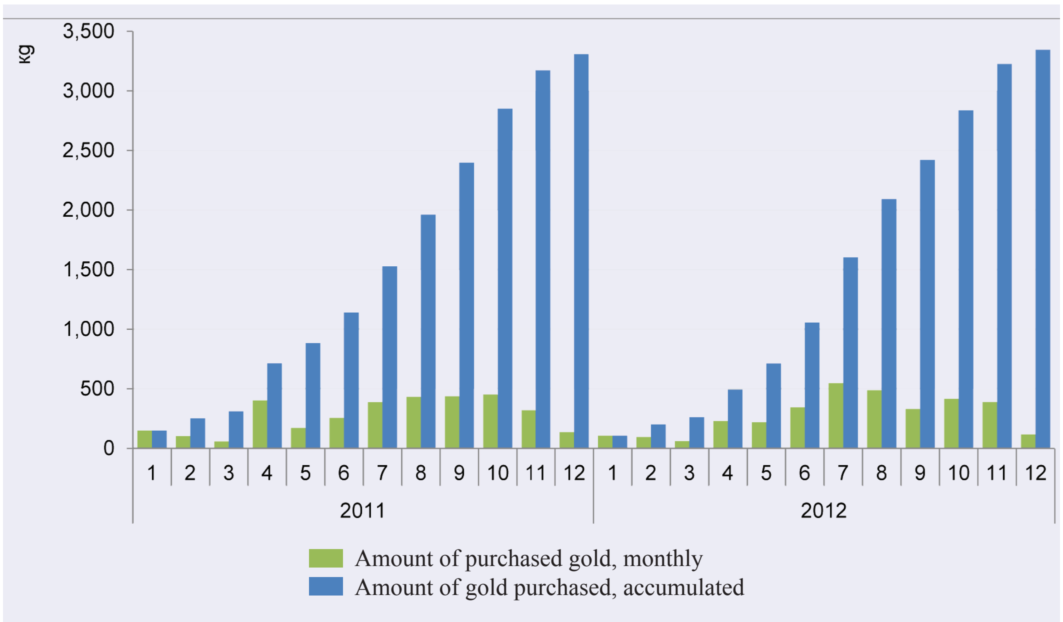
In order to improve transparency and efficiency of the Bank's operational engagement in the domestic foreign exchange market, to set the exchange rate of MNT against foreign currencies by market forces and to maintain it at the level consistent with macroeconomic objectives, the Bank has been intervening in the domestic market through the Foreign Exchange Auction. In the reporting year, 105 Foreign Exchange Auctions have been held and the Bank supplied USD 639.9 million into the domestic foreign exchange market in order to prevent high fluctuations when economic fundamental conditions caused depreciation on exchange rate of MNT against USD. The exchange rate fluctuates due to the imbalance of the supply and demand in the short term is minimized and the expectation error in the foreign exchange market is corrected to create stable foreign exchange market.

In 2012, the Bank started selling Chinese Yuan through Foreign Exchange Auction in order to control USD demand coming through CNY and to decrease the pressure of exchange rate of MNT against USD. Overall, CNY 2.5 billion was supplied to domestic foreign exchange market and prevented a possible shortage of CNY in the market.

3.5 Domestic market gold purchase

One of the main source of foreign exchange reserve accumulation of the Bank is purchasing of gold from domestic gold mining companies. The Bank is engaging in to refine the gold purchased from gold miners and microminers according to world standard, and increase the national foreign exchange reserve. In reporting period the Bank purchased total of 3.36 tonnes of gold with value of MNT 222.4 billion from 88 entities and 13 individuals which is year on year basis increase of 0.03 tonnes or 1.09 per cent increased result. In 2012 the Bank in total 1.87 tonn gold refined, increased foreign exchange reserve by 88.98 million USD.

Figure 36. The gold amount of the Bank of Mongolia purchased (gross weight kg)



Source: Bank of Mongolia

ORGANIZATIONAL STRUCTURE OF THE BANK, OTHER ACTIVITIES, FINANCIAL STATEMENT

4

4.1 Organizational structure of the Bank

The Bank includes 9 departments, 2 independent units, 17 regional branches and a representative office in London, United Kingdom.

For the reporting year, in accordance with legislation article 28.1.6 law of the Central bank (Mongolbank), there had been made some structural changes in departments such as Internal Audit Department reorganized as an Internal Control and Operational Risk Management Department (ICORMD), Legal Department and Banknote and precious metal Department are founded.

For the reporting year, the Bank employs 434 staff, of which 74.7% of the total employees is core staff working at the head office.

The 71.4% of total employees having degrees on economics, accountancy, business administration, and legislation show that the workforce is capable enough to implement the bank's policy and strategy. The Bank has been undertaking community activities to improve the qualification of the staff as well as increasing the number of proficient staff. Pursuant to the mid-term human resource policy, administrative workers have examined by the "Test on professional skills" and 14.5% of them received over 90 points out of 100 points.

The Bank quarterly promoted the employees as evaluating the outgrowth of the workers and adjusted the issues to increase the salary, improve the working condition, and dissolve the welfare and housing conditions by relating with the alleged budget.

During the reporting year, the 850th anniversary of the Birth of Great Chinggis Khaan. In accordance with celebration, the Bank has defined the successful and settled employees to an honorarium of state medal and 20 best workers received state prize.

4.2 International cooperation

The Bank continues developing its relations with various international financial organizations and expanded relationship with other central banks to promote and deepen regional cooperation. In collaboration with the Government as well as domestic and foreign financial institutions, the Bank have actively participated in Government bond issue in the international financial market ensuring financial stability of the country and supporting economic growth. In this regard Bank organized following activities in 2012:

- *On March 20, 2012, Purevdorj.L, Governor of the Bank and Zhou Xiaochuan, Governor of the People's Bank of China signed the Amendment to "Chinese Yuan / Mongolian Tugrik Bilateral Currency Swap Agreement" to expand swap scale from 5 billion CNY / 1 trillion MNT to 10 billion CNY / 2 trillion MNT in Beijing. Both sides agreed that expanding swap scale would be not only next step on cooperation of the two central banks, but also be conducive to maintain regional financial stability and to facilitate bilateral trade and investment.*
- *In February 17, 2012 Memorandum of Understanding between Korea Asset Management Corporation and Bank of Mongolia has been signed in order to promote cooperation and coordination in exchanging their experiences in managing and disposing distressed assets. The MOU covers personnel exchanges, cooperation in asset marketing, information sharing and other areas of mutual interest.*
- *The delegation of Bank of Mongolia headed by Governor L.Purevdorj had participated in the*

47th Conference of the Governors of The South East Asian Central Banks (SEACEN), High-Level Seminar and 31st Meeting of the SEACEN Board of Governors being held on 13-14 February 2012 in Seoul, Korea. At the 31st Meeting of the SEACEN Board of Governors had admitted Bank of the Lao PDR as the 18th SEACEN member. Governors also reviewed the strategic role of the SEACEN Centre in building central banking capabilities and networking through its comprehensive learning and applied research programs.

- *The Bank hosts the 32nd Meeting of the Board of Governors of the SEACEN Research and Training Centre, in conjunction with the 48th Governors' Conference and the High-Level Seminar on 22-24 November 2012 in Ulaanbaatar. Delegates from 18 SEACEN member central banks, monetary authorities and strategic partners participated in the event.*

Mr. Zoljargal Naidansuren, Governor of Bank of Mongolia has been elected as Chairman of SEACEN Board of Governors. Board of Governors approved budget, programme of activities of SEACEN for 2013, the new membership criteria. At this 32nd SEACEN BOG Meeting, Governors welcomed Reserve Bank of India as the 19th SEACEN member. Given the need to determine optimal size of SEACEN Centre's membership, Task Force to review and propose it has been established. Nepal Rastra Bank will host the 33rd SEACEN Board of Governors' Meeting and 49th SEACEN Governors' Conference in 2013.

During the Conference under the theme "Financial Contagion and Volatile Capital Flow" Mr. Gerard Almekinders, Mission Chief, Asia-Pacific Department of the International Monetary Fund in his speech stressed Asian close link to the rest of the world through trade and financial channels. While the decline in external demand following the continued weakness in most advanced economies has an adverse effect on economic growth, the Asian economy has remained resilient due to strong economic fundamentals. During the High-Level Seminar held in conjunction with the conference Dr. Jaime Caruana, General Manager of the Bank for International Settlements noted the need to implement a stronger regional financial architecture in Asia to deal with future contagions by fostering the learning and understanding of regional and global issues.

4.3 Communication

The Bank's communications initiatives in 2012 focused on several key areas including the economic outlook, monetary policy soundness for the better accountability and credibility. Accomplishing the initiatives, some strategic actions which have increased the understanding of the central bank's main objective, transparency, resilience of the monetary and budgetary policies were carried out through various channels involving press conferences, meetings, workshops, interviews, lectures, and articles. Moreover, intending the students and attendances "Visit Bank of Mongolia" excursion has launched.

Promoting the 'Draft on Monetary Policy Guidelines

Within promoting and interpreting the 'Draft on Monetary Policy Guidelines for 2013' to the Parliament, Government, press, and the public, the Bank held the seminar cooperating with the Mongolian Press Institute. Therefore, statement from the governor and the interviews of the directors in accordance with the draft on guideline was published on the daily papers for the public understanding.

Monetary policy decision making and press conference

The Bank has established monetary policy committee (MPC) in October, 2012 which was separated from the Board of directors and increased the number of independent members. Thus, the MPC works with new structure and regulation by discussing the draft of monetary policy decision with 3 steps in the large scale from all aspects and the decision was published by the official press conference and public media.

In 2012, The Bank launched press conferences in accordance with the announced press conference schedule. Announcing the press conference schedule brought not only the achievement to expect the Central bank actions, but also the impact on decision making process of banking and financial market. The press conference comprises explanations on background considerations of monetary policy decision and the MPC members answer the related questions of the journalists. The monetary policy statements are also communicated on the Bank's official website immediately after the conferences. Besides, the concise minutes of the conference were published on the website in two hours after press conference.

Publications

The Annual Report 2011, the Draft on Monetary Policy Guidelines for 2013, and the Research Book'7 were released in the year of 2011 and delivered to the Parliament, members of the Government, government agencies, universities and libraries, etc. All of them also has published on the Bank's official website.

Improving the website

The Bank has given substantial emphasize on improving the website in 2012. 'Price stability', 'Monetary Policy Committee', and 'Government Securities' etc many core areas are newly added on the website. Also the list on 'Monetary Policy' was now became significantly developed on the content and newly added monetary policy framework and transmission mechanism, etc. Therefore, the Bank substantially proclaimed the public about the independence, accountability, transparency, credibility of the central bank via using the website. The Bank products including researches, reports, and statistics were being informed through the website.

4.4 Anti-money laundering and Combating financing of terrorism

The Bank cooperated with the Ministry of Justice and other relevant governmental organizations in drafting amendment to Law on Anti-money laundering and Combating financing of terrorism according to FATF 40 recommendations, under the review of the FATF.

Mongolia agreed upon with FATF to implement action plan by:

- *criminalising money laundering and terrorism financing in AML/CFT law, Law on Combating Terrorism, Criminal code and Criminal procedure code,*
- *criminalising legal entities for ML/TF crimes,*
- *establishing adequate procedures for confiscation and seizure of property and proceeds related to money laundering in accordance with relevant United Nations conventions,*
- *and adopting relevant laws before June 2013 by the Parliament.*

The Bank received recommendations from WB, IMF, UN 1267 Monitoring Team, and APG consultants reflecting recommendations in drafting these legislations. The Bank reports each quarter to the FATF about every advancements relating to amendment of AML/CFT law, other relevant laws and regulations.

The Financial Information Unit, the main body for ensuring the compliance of the AML/CFT Law, receiving, analyzing money laundering/terrorism financing suspicious transaction reports from reporting entities and disseminating it to Law enforcement agencies, operate in the Bank, increased staff and operation capacity in 2012. Consequently, activity on analysis, supervision, increased staff number and capacity building of the FIU were highly acclaimed by the APG mutual evaluation follow-up. In addition, officials of FIU attended in a number of training and workshop to improve knowledge and increase capacity building.

The Bank received technical assistance from IMF on developing financial institution's risk assessment and risk based on-site and off-site supervision programs, procedures and carried out activity for strengthening supervision capacity of FIU supervisors.

During the period, the FIU developed effective way to exchange information to support domestic law enforcement agencies on activity of AML/CFT and to detect proceeds of crime.

As a member of Egmont Group, FIU of Mongolia signed a number of Memorandum of understandings with other countries FIU's in order to exchange financial information. Exchanging information and cooperation with foreign counterparts allowed FIU to support law enforcement agencies in detecting inflow and outflow of illegal funds.

The Bank periodically reported implementation of action plan and continuously expressed its full commitment to sound and effective AML/CFT regime, representing Mongolia in the APG Plenary Meetings.

Within scope of functions set forth in AML/CFT, FIU conducted trainings and seminars for officials of banks and financial institutions in Ulaanbaatar and other provinces to increase awareness and improve compliance of AML/CFT.

4.5 Internal Control and Operational Risk Management

Due to organization's structural changes Internal Audit Department reorganized as an Internal Control and Operational Risk Management Department (ICORMD). The department is composed of two related divisions which are Internal Control and Operational Risk Management. Internal Control Division conducts inspections of departments, units, and regional branches of the Bank to supervise their compliance with laws and regulations in implementing the State Monetary Policy whereas Operational Risk Management Division measures, assesses and monitors operational risks, as well actively develops risk management policies and regulations within the Bank.

In accordance with the 2011-2015 long-term action plan, Internal Control Division performs inspections of departments, units, and all 17 regional branches of the Bank.

Summary of off-site control and on-site reports are being prepared and reported quarterly to the Board of Directors and Supervisory Board.

Furthermore, we are working on to optimize our department's organizational structure, enabling us effectively execute primary and consecutive self-assessments, prevent potential risk exposure, enhance employees' skills and carry out our duties with more sophisticated approach.

4.6 Issuance of Banknotes

In the reporting year, the Bank carried out the following activities, regarding the issuance of currency. Last year notes in 10, 20 and 50 MNT denominations were printed in the French company, Oberthur Fiduciare, notes in 500 and 1000 MNT denominations in the UK company, De La Rue Currency, notes in 5000 and 20000 MNT denominations in the German company, Giesecke and Devrient respectively.

As for the end of the reporting period, cash in circulation totaled MNT 826.1 billion, a 16.2 percent or MNT 115.4 billion increase from the previous year.

Table 15

No	Notes	31-st December 2011				31-st December 2012			
		(Million MNT)	Per cent	Piece (Thousand)	Per cent	Million MNT	Per cent	Piece (Thousand)	Per cent
1	1	21	0%	21052	9%	26	0.0%	26437	9.0%
2	5	90	0%	18020	8%	12	0.0%	23481	8.0%
3	10	443	0%	44369	19%	527	0.1%	52729	18.0%
4	20	582	0%	29145	12%	736	0.1%	36804	12.6%
5	50	1302	0%	26051	11%	1676	0.2%	33516	11.5%
6	100	2617	0%	26178	11%	3375	0.4%	33753	11.5%
7	200	33	0%	165	0%	68	0.0%	338	0.1%
8	500	3328	0%	6656	3%	5200	0.6%	10400	3.6%
9	1000	13114	2%	13114	6%	13727	1.7%	13727	4.7%
10	5000	59174	8%	11834	5%	64394	7.8%	12878	4.4%
11	10000	190952	27%	19095	8%	234702	28.4%	23470	8.0%
12	20000	439034	62%	21951	9%	501525	60.7%	25076	8.6%
		710696	100%	237637	100%	826074	100.0%	292615	100.0%

According to the abovementioned table, by the end of reporting year cash in circulation in pieces increased by 54.9 million notes or 23.2% from the previous year. The reason is that notes in 10000 and 20000 MNT denominations increased in circulation.

The changes for amount and pieces of banknotes supplied to commercial bank and withdrawal from commercial banks are indicated in the following table (table 18).

Table 16

Years	Supply to banks		Withdrawal from banks	
	Billion MNT	Thousand piece	Billion MNT	Thousand piece
2008	823.4	139250	966.4	151271
2009	630.5	111489	761.4	117774
2010	827.9	131954	862.5	123713
2011	1246.4	181258	1310.6	170460
2012	1564.2	224471	1663.3	198521
	4682.7	727119	4719	664864

4.7 Information technology

In the reporting year, the Bank has worked by providing reliable, stable and failsafe operations of the interbank payment systems and information technology systems within the organization.

The Bank has continued to extend interbank electronic money market system and developed in-house new application software for government bond trading. Therefore some major upgrades to current application software systems of internal operations have been developed and introduced.

In order to mitigate further possible risks of information technology systems, IT team have achieved some success in area of the information system security and safety.

4.8 Summary of documents approved by the Bank of Mongolia in 2012

No.	Date	Decree No.	Title of policy and procedure	Main description
1	2012.01.23	A-9	Regulation on Foreign Currency Tender Offer, Rules on Foreign Currency Tender Offer	Renewed Offer form to participate to the Foreign Currency Tender Offer, Rules on Foreign Currency Tender Offer's Appendix 1 and Transaction order form.
2	2012.02.09	A-21	Regulation on exchanging mutilated foreign banknotes	This regulation regulates activity of exchanging mutilated (but valid) foreign banknotes through bank based on the claims of individuals and legal entities.
3	2012.03.05	A-26	Regulation on calculating and announcing exchange rate of MNT against other foreign currencies	This regulation is intended for inspecting and determining the methods of calculating exchange rate of MNT against other foreign currencies and announcing it from the Bank of Mongolia.
4	2012.03.16	17/A-35	Regulation on Opening and Closing accounts for Election expenses, and Reporting Balances	In accordance with legislation, the General Election Commission of Mongolia and the Bank of Mongolia collaborated for approving regulation to open, close and register Election expenditure account.
5	2012.03.30	A-42	Rules on to conduct, transfer, and to get file of local unit of bank	To implement offsite control of banking units activity, to gather financial reports, the official documents of banking unit, and research documents for collecting private affair and to save, transfer, get private affair.
6	2012.04.17	A-52	To approve Central bank policy rate	The Bank of Mongolia renewed Central bank policy rate 12.75 percent to 13.25 to contain the inflation and the pressure on MNT and to maintain the stability of macro economy.
7	2012.04.17	A-53	Amendment to the Minimum capital reserve requirement	Bank of Mongolia renewed Bank's Minimum capital reserve requirement for Togrog and foreign currency to 12 percent by increasing 1 unit percent.
8	2012.06.07	A-80	Regulation on Banking License	This regulation regulated procedures of establishing bank, conduct banking activity as well as Bank of Mongolia authorizing procedures as receive official application to conduct rehabilitation of paid-in capital and bank restructuring, review the official application and relevant accompanying documents and issue orderly permission based on such application to its issuer, revoke the prior approved permission.
9	2012.07.04	A-99	Regulation on Banking unit	This regulation regulates procedures for issuing to creating bank unit, monitoring the required documentation and repealing its permission in terms of article 18 of The Banking Law of Mongolia. On this regulation added new chapter for Domestic banks that has headquartered and registered in Mongolia issuing permission to establish bank unit in foreign countries and suspending, objecting and repealing the permission and to emit more comprehensive and certain about issuing permission to representative office of foreign banks and suspending, objecting and repealing the permission.

10	2012.10.26	A-149	Regulation on Opening and Closing accounts for Election expenses, and Reporting Balances for aimag, sum and district council	In accordance with legislation, the Election Commission of Mongolia and the Bank of Mongolia collaborated for approving regulation to open, close and register Election expenditure account.
11	2012.10.25	217/A-161	Regulation to issue and to exchange Government bond	This regulation regulated how to sell issued Government bond to others from Mongolbank.
12	2012.10.26	A-166/ A/24	Food price stabilization sub-program	The main goal of the subprogram is ensuring the stability of main food products' prices, introducing financial instruments to be collateralized by the balance in warehouses and developing a permanent framework based on the supply market.
13	2012.10.26	A-167/57	Trade logistics and facility subprogram (TLF), aimed at lowering the costs of imported consumer goods	The main goal of the subprogram is to smoothen the supply of imported customer goods and to limit the price increase by improving international trade transportation and logistics infrastructure.
14	2012.10.26	A-169	Regulation on monetary policy committee	Strengthening Bank of Mongolia's independence, and external representation in the formulation of monetary policy and the monetary policy decision-making process through the Monetary Policy Council to optimize the delivery of public procedures of these relations.
15	2012.10.26	A-171/46	Strategic import financing scheme (SIFS), aimed at stabilizing the retail fuel price	The main goal of the subprogram is to stabilize the retail fuel price through financing retail fuel imports with Bank of Mongolia's predetermined interest rate and minimizing its exchange rate related risks.
16	2012.12.24	A-197	Regulation on licensing credit information service	This regulation regulated issuing permission based on such application to its issuer, revoke the prior approved permission.

AUDITED FINANCIAL STATEMENT 5

BOARD OF DIRECTORS' RESPONSIBILITY STATEMENT

The Bank's Board of Directors is responsible for the preparation of the financial statements.

The financial statements of the Bank of Mongolia ("the Bank") have been prepared to comply with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that these financial statements present fairly the financial position of the Bank as at 31 December 2012 and of its financial performance and its cash flows for the year then ended.

The Board of Directors has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the accounting policies set out in Note 2 thereto.

The Board of Directors also has a general responsibility for taking actions which are reasonably open to the Board to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Board of Directors consider that in preparing the financial statements on pages on 1 to 57 the appropriate policies have been used, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

Signed on behalf of the Board of Directors:

N. Zoljargal
Governor, Bank of Mongolia

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board and Managing Board of the Bank of Mongolia

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

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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T: +976 (11)329088, +976 (11)329089, F: +976 (11)322068, www.pwc.com/mn

Basis for qualified opinion – Provision for loan impairment

As disclosed in Note 3 to the financial statements, the Bank was not able to reliably estimate future expected cash flows for the purposes of calculating the provision for impairment and fair value disclosure of loans in the gross amount of MNT 89,490 million as at 31 December 2012 (31 December 2011: MNT 102,000 million) related to Anod Bank, which has been in receivership since 2008. Prior to 2012 management was of the opinion that these loans were recoverable from the Government of Mongolia through the issuance of a government bond by the Ministry of Finance, which was to be used for repayment of receivables due from Anod Bank, and no provision was recognised by the Bank against these receivables as at 31 December 2011. However, the issuance of this government bond has not yet been approved by the Parliament of Mongolia. Given the uncertainty about the amounts and timing of future cash flows, the Bank raised a 100 per cent provision against the loans related to Anod Bank.

In accordance with International Accounting Standard 39 "Financial Instruments" ("IAS 39"), the impaired loans to Anod Bank should not be written down to zero if there are expected future cash flows, taking into account any amounts expected to be recovered directly from receivership or through the proposed issuance of government bond. In the absence of an estimate of the present value of these amounts by management in accordance with IAS 39, we were unable to quantify the adjustments required to increase the carrying value of loans to local banks as at 31 December 2012 (and the fair value thereof disclosed in Note 28), and to decrease the provisions for impairment of loans to local banks recorded in the statement of comprehensive income for the year then ended.

In addition, as reflected in our qualified opinion issued on 7 June 2012 in respect of the financial statements for the prior year, we were unable to satisfy ourselves as to the carrying value of loans to local banks as at 31 December 2011 and 31 December 2010 (and the fair value thereof disclosed in Note 29), and the provisions for impairment of loans to local banks recorded in the statement of comprehensive income for the years then ended.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the "Basis for qualified opinion" paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Carolyn Clarke
Partner
26 April 2013

In millions of Mongolian Togrog	**Note**	**31 December 2012**	**31 December 2011**
ASSETS			
Cash in hand	6	28,317	44,505
Due from foreign financial institutions	7	3,272,979	2,244,580
Financial investments available-for-sale	8	142,553	212,540
Reverse repurchase agreements	9	2,031,631	678,496
Gold bullion and precious metals	10	439,669	268,085
Government securities	11	159,210	155,276
Loans to local banks	12	294,810	340,581
Premises, equipment and intangible assets	13	26,631	26,003
Other assets	14	7,421	6,148
TOTAL ASSETS		**6,403,221**	**3,976,214**
LIABILITIES			
Cash in circulation		828,450	713,351
Central bank bills	15	752,151	879,113
Liabilities due to government organizations	16	2,959,686	1,170,890
Deposits from local banks	17	1,371,671	1,015,230
Liabilities due to foreign parties	18	576,414	105,412
Other liabilities	19	62,481	58,072
TOTAL LIABILITIES		**6,550,853**	**3,942,068**
EQUITY			
Charter capital	20	5,000	5,000
Accumulated loss		(302,685)	(91,799)
Other reserves	20	150,053	120,945
TOTAL EQUITY		**(147,632)**	**34,146**
TOTAL LIABILITIES AND EQUITY		**6,403,221**	**3,976,214**

Approved for issue and signed on behalf of the Board of Directors on 26 April 2013.

N. Zoljargal
Governor

M. Amgalan
Director of Payment and
Accounting Department

In millions of Mongolian Togrog	Note	2012	2011
Interest income	21	59,349	19,669
Interest expense	21	(104,773)	(118,981)
Net interest expense		**(45,424)**	**(99,312)**
Net gain from trading of gold and precious metals	22	20,449	43,430
Foreign exchange translation (losses net of gains) / gains less losses	23	(23,694)	252,306
Losses net of gains from financial derivatives		(10,267)	-
Losses on initial recognition of loans at rates below market	3,12	(17,895)	-
Losses net of gains from disposal and impairment of investment securities available-for-sale		(453)	-
Commission income		2,452	2,002
Other operating income		845	603
(Provision)/reversal of provision for impairment	24	(88,616)	3,536
Administrative and other operating expenses	25	(18,791)	(22,933)
(LOSS)/PROFIT FOR THE YEAR		**(181,394)**	**179,632**
Other comprehensive income:			
Net gain/(loss) on available-for-sale financial instruments:			
- (Losses less gains)/gains less losses on fair value changes		(837)	21
- Losses less gains recycled to profit or loss		453	-
Other comprehensive (loss)/income for the year		**(384)**	**21**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(181,778)**	**179,653**

In millions of Mongolian Togrog	**Note**	**Charter capital**	**Accumulated loss**	**Other reserves**	**Total equity**
Balance at 1 January 2011		**5,000**	**(34,331)**	**(116,176)**	**(145,507)**
Profit for the year		-	179,632	-	**179,632**
Other comprehensive income		-	-	21	**21**
Total comprehensive income for 2011		-	179,632	21	**179,653**
Transfer to other reserves from retained earnings	23	-	(222,769)	222,769	-
Transfer to other reserves from retained earnings	22	-	(14,331)	14,331	-
Balance at 31 December 2011		**5,000**	**(91,799)**	**120,945**	**34,146**
Loss for the year		-	(181,394)	-	**(181,394)**
Other comprehensive loss		-	-	(384)	**(384)**
Total comprehensive loss for 2012		-	(181,394)	(384)	(181,778)
Transfer to other reserves from retained earnings	23	-	(14,201)	14,201	-
Transfer to other reserves from retained earnings	22	-	(15,291)	15,291	-
Balance at 31 December 2012		**5,000**	**(302,685)**	**150,053**	**(147,632)**

Transfers from retained earnings (accumulated loss) to other reserves in 2012 and 2011 relate to transfer of unrealized foreign exchange differences and unrealized gains and losses on gold bullion (Note 2).

In millions of Mongolian Togrog	Note	2012	2011
(Loss)/profit for the year:		(181,394)	179,632
Adjustment for:			
Unrealised gain on revaluation of gold	22	(15,291)	(14,331)
Unrealised gain on foreign currency translation	23	(14,201)	(222,769)
Losses on initial recognition of loans at rates below market	3,12	17,895	-
Depreciation of property, equipment and intangible assets	13	1,800	1,525
Property and equipment written off	13	8	4
(Provision)/reversal of provision for impairment	24	88,616	(3,536)
Provision for social development fund	25	2,000	4,000
Interest income	21	(59,349)	(19,669)
Interest expense	21	104,773	118,981
Cash flows from operating activities before changes in operating assets and liabilities		**(55,143)**	**43,837**
Net increase in gold bullion and precious metals		(156,293)	(128,321)
Net increase in reverse repurchase agreements		(1,353,135)	(149,132)
Net decrease/(increase) in due from foreign financial institutions		155	(70)
Net increase in loans to local banks		(59,614)	(209,899)
Net increase in government securities		(1,320)	(98,161)
Net decrease in other assets		922	2,965
Net decrease in Central Bank bills		(138,009)	(230,656)
Net increase in liabilities to foreign parties		471,002	16,057
Net increase in deposits of Governmental organizations		1,956,137	15,192
Net increase/(decrease) in deposits of local banks		169,498	(68,632)
Net increase/(decrease) in other liabilities		297	(12,494)
Net cash from/(used in) operating activities before interest		**834,497**	**(819,314)**
Interest received		53,406	12,418
Interest paid		(92,493)	(109,680)
Net cash from/(used in) operating activities		**795,410**	**(916,576)**
Cash flows from investing activities			
Acquisition of premises, equipment and intangible assets		(2,574)	(1,966)
Proceeds from disposal of premises and equipment		138	2
Acquisition of financial instruments available for sale		(137,970)	(209,455)
Proceeds from sale of financial instruments available for sale		203,371	1,096,047
Proceeds from sale of financial instruments held to maturity		-	72,702
Net cash from investing activities		**62,965**	**957,330**

In millions of Mongolian Togrog	**Note**	**2012**	**2011**
Cash flows from financing activities			
Increase of cash in circulation		115,099	193,659
Net cash from financing activities		**115,099**	**193,659**
Effect of exchange rate changes on cash and cash equivalents		**(3,350)**	**128,828**
Net increase in cash and cash equivalents		**970,124**	**363,241**
Cash and cash equivalents at the beginning of the year	6	784,074	420,833
Cash and cash equivalents at the end of the year	**6**	**1,754,198**	**784,074**

1 Introduction

The Bank of Mongolia (the "BOM" or the “Bank”) is the central bank of Mongolia and operates in accordance with the Constitution of Mongolia, the Law on Central Bank (Bank of Mongolia), and other laws of Mongolia. The Bank was established under the resolution of the Government of Mongolia dated 2 June 1924.

All operations of the BOM are conducted in Mongolia. The BOM system includes 17 regional offices throughout Mongolia and its representative office in London, England.

In accordance with the legislation, the primary function of the BOM is ensuring the stability of the national currency of Mongolia and to promote balanced and sustained development of the national economy, through maintaining stability of finance markets and banking system.

The BOM does not aim to earn profits. The financial results of the BOM's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the BOM as a special central government authority.

In accordance with the Law on Central Bank (Bank of Mongolia), the main functions of the BOM are as follows:

- *issue of national currency of Mongolia and organisation of its circulation;*
- *formulation and implementation of monetary policy by regulating money supply in the economy;*
- *acting as depository of the Government of Mongolia (the “Government” or the “State”);*
- *exercising banking regulation and supervision;*
- *organization of interbank payments and settlements;*
- *holding and management of the State’s reserves of foreign currency;*
- *acting as a lender of the last resort for banks and organising a system of refinancing;*
- *representing Mongolia in other central banks, international banks and other credit institutions where co-operation is maintained between the central banks;*
- *exercising other functions in financial and credit areas within the competence defined by the Law.*

According to the Law, the BOM provides loans to banks to support their liquidity, buys and sells securities in the secondary market, buys and sells foreign currency valuables, precious metals, sells commemorative coins made of precious and non-precious metals in the domestic and foreign markets, performs operations of servicing of the Government debt in respect of placement of Government securities, their redemption and interest payments, maintains accounts of the Government and other government institutions, including accounts of the Ministry of Finance (fiscal agent of the Government of Mongolia), accounts of international organisations and conducts other operations necessary for the performance of its functions.

The charter capital of the BOM is fully owned by the State of Mongolia.

In accordance with the Law, the main task of the BOM Council (Board) is to develop principles of monetary policy and exercise control over implementation of the monetary policy. In addition, the BOM Council approves annually the BOM budget of income and expenditure for the next year, approves annual financial statements of the BOM, report on fulfilment of the BOM budget of income and expenditure and distribution of profit for the reporting year, as well as performs other functions according to its authority defined by the Mongolian legislation.

Registered address and place of business. The Bank’s registered address is: Baga Toiruu 9, Ulaanbaatar 46, Mongolia.

Presentation currency. These financial statements are presented in Mongolian Togrog (“MNT”), rounded to millions.

2 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, refer to Note 8.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique for which inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. For the purposes of reporting cash flows reflecting changes in both foreign and domestic liquidity, cash and cash equivalents include items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include financial assets, which are on demand or maturing within three months and which are available for use at short notice, as well as demand deposits of government organisations and local banks, denominated in local currency, refer to Note 6. Financial assets that cannot be freely converted into cash due to insufficient liquidity or due to restrictions on their use are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Gold bullion and precious metals. Gold bullion consists of the stocks of gold bars of international standard held in foreign banks. Gold bullion represents a part of international reserves. Gold bullion is recorded in physical weight in troy ounces and is valued in Togrog at the official exchange rate of the BOM. The official exchange rate is calculated based on information on gold prices determined (fixed) by participants of the London Bullion Market Association in US dollars translated into MNT at the BOM official MNT/US dollar exchange rate. Apart from holding gold as gold bullion, the Bank purchases unrefined gold from producers and companies in Mongolia and trades in gold (refer to Note 10).

Gold billion and silver bars of international standard are measured in the statement of financial position at their fair value and revaluation is performed daily. The fair value is determined by taking into consideration the market value of gold and silver. Revaluation gain or loss is recognised in the profit or loss. Annually, unrealised gain or loss on fair value changes is transferred from the retained earnings to "Precious Metal Valuation Reserve" within other reserves in equity.

Other precious metals including gold and silver ore, coins and cultural valuables are held in the Bank's Central Vault. Other precious metals are recognised as inventory and are carried at lower of cost and net realisable value.

Foreign currency translation. The functional currency of the Bank is the national currency of the primary economic environment in which the Bank operates. The functional and presentation currency of the Bank is the national currency of the Mongolia, Mongolian Togrog (MNT).

2 Summary of Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Togrog at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Togrog, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

At 31 December 2012, the principal rates of exchange used for translating foreign currency balances were:

	31 December 2012 (MNT)	31 December 2011 (MNT)
USD 1	1,392.10	1,396.37
SDR 1	2,145.90	2,137.00
EUR 1	1,835.83	1,806.76

Due from foreign financial institutions. These balances are recorded when the BOM advances foreign currency funds to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. These items are classified as loans and receivables for IFRS measurement purposes. They are initially recorded at fair value plus transaction costs and are subsequently recorded at amortised cost using effective interest method.

Loans to banks and government securities. Loans to banks and other borrowers (such as Ministry of Finance) are recorded when the BOM advances money to originate an unquoted non-derivative receivable from a counterparty bank or other borrower due on fixed or determinable dates and has no intention of trading the receivable. These items (including government securities issued by the Ministry of Finance) are classified as loans and receivables for IFRS measurement purposes. They are initially recorded at fair value plus transaction costs and are subsequently recorded at amortised cost using effective interest method.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements (“repo agreements”) which effectively provide a lender’s return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables.

Securities purchased under agreements to resell (“reverse repo agreements”) which effectively provide a lender’s return to the Bank are recorded as due from foreign financial institutions or loans to local banks, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence of impairment of financial assets is information on the following loss events:

- *the borrower experiences significant financial difficulties;*
- *breach of contract by the borrower;*
- *possibility of bankruptcy or other financial reorganisation of the borrower;*
- *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 (such as a change in interest rate or extension of payment terms);*
- *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.*

2 Summary of Significant Accounting Policies (Continued)

Due to relatively small number of debtors (customers and other debtors) the Bank performs individual assessment on all financial assets i.e. the BOM assesses whether objective evidence of impairment exists individually for all receivables and other financial assets.

Impairment losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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 has been recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

When impaired financial assets are renegotiated or their terms otherwise modified because of financial difficulties of the borrower, impairment is measured using the original effective interest rate before the modification of terms. Where loans are issued at floating rates of interest, impairment is measured using the current effective interest rate.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed.

Financial investments available for sale. Financial investments available for sale include debt securities and equity investments (investments into share capital of companies which are not associates or subsidiaries), which the BOM intends to hold for an indefinite period of time. Debt securities are initially recorded at fair value plus transaction costs and are subsequently measured at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Equity investments are initially recorded at cost and are subsequently measured at cost less provision for impairment, as their fair value cannot be reliably determined, refer to Note 8.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year.

Derivative financial instruments. Derivative financial instruments primarily include foreign exchange contracts such as forward rate agreements and foreign currency swaps, entered into with local commercial banks. Derivative financial instruments represent financial instruments at fair value through profit or loss and are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Other assets. Other assets mainly consist of receivables and prepayments. Receivables are accounted for on an accruals basis and are carried at amortised cost. Receivables are recorded when due under the agreement. Prepayments are recorded on the payment date and are charged to the statement of comprehensive income when the services are provided. If the Bank has objective evidence that the receivable will not be collected the Bank recognises impairment by setting up an allowance account decreasing the net carrying value of the receivables and prepayments to their recoverable amount. The impairment is recorded in profit or loss. The Bank collects evidence of impairment of receivables using the same methods and estimations as those applied to impairment of financial assets carried at amortized cost.

2 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises are stated at re-valued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Bank are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised. Management believes that carrying amounts of premises as of 31 December 2012 and 31 December 2011 are not materially different from their fair values.

Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management 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. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year (to the extent it exceeds the previous revaluation surplus in equity, in case of premises). An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	25 – 60 years
Furniture and office equipment	8 – 10 years
Computers and technical equipment	5 – 10 years
Motor vehicles	6 – 8 years

The residual value of an asset is the estimated amount that the Bank 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.

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 years.

2 Summary of Significant Accounting Policies (Continued)

Cash in circulation. The amount of banknotes and coins in circulation represents the nominal value of banknotes and coins that can be used as payment instruments and were issued into circulation by the BOM after the introduction of Togrog into circulation in September 1993. The banknotes and coins in circulation are recorded as a liability at their nominal value when cash is issued by the BOM to banks and clients of the BOM. Cash in national currency held in the BOM's vaults and cash offices is not included in banknotes and coins in circulation.

Central bank bills. Central bank bills issued by the BOM are initially recorded at fair value and subsequently are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Loans received. Loans received by the BOM are carried at amortised cost using effective interest method. Loans received mostly relate to long-term loans obtained from the Ministry of Finance, which relate to programmes financed by the Government of Germany (KfW) and Asian Development Bank (ADB) and are included in Liabilities due to government organizations (Note 16). Loans received also include loan due to HSBC and loan due to People's Bank of China, (central bank of China, "PBC"), which are included in 'Liabilities due to foreign parties' (Note 18).

Liabilities due to foreign parties. Liabilities due to foreign parties are initially recorded at fair value and subsequently are measured at amortised cost using effective interest method. Refer to Note 18.

Liabilities due to government organizations. Accounts of the Government and other government institutions are non-derivative liabilities to the Government or other customers and are carried at amortised cost.

Deposits from local banks. Accounts of banks are recorded when money is advanced to the BOM by counterparty banks. The non-derivative liability is carried at amortised cost.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, 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.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost**.**

Operations with International Monetary Fund. As a result of the Bank's role in relationship between Mongolia and International Monetary Fund (IMF), the Bank enters into operations with IMF. IMF related balances which meet definition of assets and liabilities under IFRS Framework are recognised in the financial statements of BOM. The Bank does not recognise in its financial statements IMF related balances which do not meet definition of assets and liabilities under IFRS Framework.

IMF related balances of Government of Mongolia. The following IMF related balances do not meet definition of assets and liabilities under IFRS Framework, given that the Bank has no contractual rights and obligations with regard to purchases of related IMF funds: IMF quota contribution, stand-by arrangement loan from IMF, and loans received under Poverty Reduction and Growth Facility ("PRGF"). The BOM acts as a depository of the Government of Mongolia in the relationship of Mongolia with the International Monetary Fund (IMF). The Ministry of Finance acts as the fiscal agent of Mongolia. Thus, claims of Mongolia on and liabilities to the IMF in respect of funds received from IMF are not recognised in the financial statements of the BOM, as they represent assets and liabilities of the Ministry of Finance. Such items include IMF quota contributions, Stand-by Arrangement loan and Poverty Reduction Growth Facility (PRGF).

2 Summary of Significant Accounting Policies (Continued)

IMF quota subscription. The quota balance is a special type asset which represents Mongolia's subscription as a member of the IMF. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the Fund, the limits of access to the financial resources of the Fund and a participant's share in the allocation of SDRs, the Fund's unit of account. The major part of Mongolia's quota was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Ministry of Finance, the remainder being credited to the IMF accounts No 1 and No 2 (Note 18). As at 31 December 2012 Mongolia's quota in the IMF amounted to SDR 51.1 million (2011: SDR 51.1 million). Included in this amount is reserve tranche position of SDR 0.14 million (2011: SDR 0.14 million), which represents an asset of the Bank of Mongolia. The quota does not earn interest. Given that quota subscription was paid through issue of promissory notes by the Ministry of Finance, these amounts represent assets of the Ministry of Finance.

IMF securities issued. These securities represent IMF's holdings of Mongolia's currency and include promissory notes issued in settlement of quota as described above and holdings arising from use of IMF credit, i.e. promissory notes issued in settlement of purchase of IMF funds under Stand-by arrangement.

The stand-by arrangement represents loans granted to Mongolia by IMF under the stabilization economic programme and bear interest at SDR rate increased by 1% p.a. These loans are disbursed under an 18 month arrangement, subject to monitoring of performance criteria and completion of programme reviews. The loans and repayments are denominated in Special Drawing Rights ("SDR").

Loans received under the Poverty Reduction and Growth Facility ("PRGF" or formerly known as Enhanced Structural Adjustment Facility) are loans granted by the IMF to the Government of Mongolia with a maturity period of 10 years and bear interest at the rate of 0.5% (2011: 0.5%) p.a. These loans are disbursed under a three-year arrangement, subject to monitoring of performance criteria and completion of programme reviews. The loans and repayments are denominated in SDRs. These loans represent an obligation of the Ministry of Finance, which acts as fiscal agent of Mongolia.

IMF related assets and liabilities of the Bank. The IMF asset balances recognised in these financial statements include holdings of Special Drawing Rights (SDR), refer to Note 7. Liabilities to the IMF include liabilities for allocation of SDRs, as well as balances on IMF accounts No. 1 and No. 2. IMF account No. 1 is used for IMF transactions including quota subscription payments, purchase and repurchase of funds. Account No. 2 is used for settlements with the IMF in Mongolian currency. Refer to Note 18.

Assets and liabilities denominated in SDRs are translated into Togrog at the BOM official exchange rate of Togrog to SDR at the reporting date. The official exchange rate of Togrog to SDR is calculated based on information on the exchange rate of SDR to USD set by the IMF and the BOM official MNT/USD exchange rate at the reporting date.

Interest received in respect of SDR holdings is disclosed as interest income and charges paid in respect of use of SDR allocations are disclosed as interest and fee expense, as appropriate, in the statement of comprehensive income.

Charter capital. Charter capital (fund) is classified as equity. Refer to Note 20.

General reserve. General reserve includes only such portions of net income accumulated over years over which the Bank has full rights to utilize them. This reserve fund does not include amounts that were distributed to the State budget in the past or which can be distributed in the future, as these portions have been already transferred to the Government in respective years. Refer to Note 20.

Other reserves. Other reserves consist of unrealized foreign exchange translation gains and losses, unrealized revaluation gains and losses on gold bullion and precious metals (silver), revaluation reserve (related to buildings), and reserve for available for sale financial investments. Refer to Note 20. In accordance with its policies, the Bank transfers unrealized foreign exchange translation gains and losses and unrealized revaluation gains and losses on gold bullion and precious metals, previously recognised through profit or loss, to other reserves as of each year end.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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.

2 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Bank enters into credit related commitments, which include letters of credit and the arrangement with the People's Bank of China (central bank of China, "PBC"), which in substance represents a credit facility (line) provided by PBC in Yuan to the BOM and credit facility in MNT by BOM to PBC (refer to Note 26).

At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. In cases where the fees are charged periodically in respect of an outstanding undrawn commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Expenses for money issuance. The BOM purchases Mongolian national currency banknotes and coins. Prepayments associated with the banknotes and coins purchases are within "Other assets" and charged to the BOM's expenses when produced banknotes and coins are transferred by printing companies to the Central Vault of the BOM.

Staff costs and related contributions. Wages, salaries and other salary related expenses (including paid annual leave and sick leave, bonuses, and non-monetary benefits) are recognized as an expense in the year in which the associated services are rendered by the Bank's employees. Short term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognized when absences occur.

Long-term employee benefits. Based on its internal regulations, the Bank is obliged to pay defined number of salaries (depending on the number of years of work in BOM prior to the retirement) to its employees when they retire. Related liability is included in Social Development Fund (Note 19). Management believes that Social Development Fund as of 31 December 2012 and 31 December 2011 is sufficient to cover these liabilities and short-term liabilities for which this fund is created and that amount of recognised liability for retirement benefits is not materially different from the amount of present value of the defined benefit obligation at the reporting date less adjustments for unrecognised actuarial gains or losses and past service costs.

Income taxes. In accordance with Economic Entity and Organization Income Tax Law of Mongolia, the BOM is exempted from income tax.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

2 Summary of Significant Accounting Policies (Continued)

	31 December 2012			31 December 2011		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In millions of Mongolian Togrog	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
Cash in hand	28,317	-	28,317	44,505	-	44,505
Due from foreign financial institutions	3,179,637	93,342	3,272,979	2,147,427	97,153	2,244,580
Financial investments available-for-sale	-	142,553	142,553	209,456	3,084	212,540
Reverse repurchase agreements	2,031,631	-	2,031,631	678,496	-	678,496
Gold bullion and precious metals	435,778	3,891	439,669	264,189	3,896	268,085
Government securities	100,000	59,210	159,210	-	155,276	155,276
Loans to local banks	286,847	7,963	294,810	229,469	111,112	340,581
Premises, equipment and intangible assets	-	26,631	26,631	-	26,003	26,003
Other assets	7,421	-	7,421	6,148	-	6,148
TOTAL ASSETS	**6,069,631**	**333,590**	**6,403,221**	**3,579,690**	**396,524**	**3,976,214**
Cash in circulation	-	828,450	828,450	-	713,351	713,351
Central bank bills	752,151	-	752,151	879,113	-	879,113
Liabilities due to government organizations	1,915,611	1,044,075	2,959,686	292,722	878,168	1,170,890
Deposits from local banks	780,935	590,736	1,371,671	369,960	645,270	1,015,230
Liabilities due to foreign parties	471,387	105,027	576,414	-	105,412	105,412
Other liabilities	62,481	-	62,481	58,072	-	58,072
TOTAL LIABILITIES	**3,982,565**	**2,568,288**	**6,550,853**	**1,599,867**	**2,342,201**	**3,942,068**

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Initial recognition of borrowings from the Ministry of Finance and loans to local banks. The Bank has borrowings due to the Ministry of Finance in the amount of MNT 20,433 million (2012: MNT 20,796 million), which relate to the borrowings received by the Ministry of Finance on behalf of the Government of Mongolia, under inter-state project financing from the Government of Germany (KfW) and Asian Development Bank. These resources are subject to a very low interest ranging from 0.75% to 1% p.a. and were conditional on lending to selected sectors of economy or for other specified purposes at low rates. Management have considered whether gains should arise on initial recognition of such instruments. In making this judgement management made a conclusion that these borrowings should be considered as instruments of a special purpose market represented by inter-state project financing aimed to serve the public interest that is often provided at just a token or even free of charge. Further, the funding from these institutions was also available at low interest rates to certain Mongolian commercial banks for selected sectors or specific purposes. As a result, no initial recognition gains should be recognized.

As a result of such financing, the Bank is able to advance funds to eligible banks at advantageous rates. Management have considered whether losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that this lending is at the market rates and no initial recognition losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Impairment of loans to local banks. The Bank regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. As disclosed in Note 12, due to significant uncertainty the Bank is not able to estimate with sufficient reliability future expected cash flows for the purposes of calculating provision for impairment and fair value disclosure of loans related to Anod Bank totalling MNT 89,490 million as of 31 December 2012 (2011: MNT 102,000 million). While in prior years the Bank's management was of the opinion that these loans were recoverable from the Government of Mongolia, the issuance of a government bond by the Ministry of Finance has not yet been approved by the Parliament of Mongolia. Given the high uncertainty about the issuance of this bond, the Bank raised 100 percent provision against loan related to Anod Bank in 2012.

Initial recognition of financial instruments. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. As disclosed in Note 12, starting from November 2012 the Bank has issued loans in MNT to local banks in the amount of MNT 204,702 million for further lending to local companies from petroleum and food sectors as part of Government Price Stabilisation Program. These loans were issued under terms and conditions defined by Government joint resolutions and the Bank has no discretion in defining the terms of these loans. In addition, decisions on participation of particular companies in the program are also taken by the Government, and the companies selected are entitled to obtain loans, which are refinanced by the Bank of Mongolia, from any commercial bank.

In accordance with the government instructions the interest rate at which the loans have been granted to commercial banks is 0.89% per annum, which is below market rate. The fair value of these loans at initial recognition was MNT 186,924 million. The difference between nominal value of these loans and their fair value totalling MNT 17,895 million was charged to profit or loss for the year.

When assessing the fair value of loans issued under this program at initial recognition certain judgements and estimates were applied by the Bank in determination of market rates used in discounted cash flow calculations. To the extent that the discount rates applied differ by +/- 1 percent, the loss on initial recognition of these loans would be MNT 1,376 million higher or MNT 1,399 million lower respectively.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Control over banks under receivership. Management applies judgement to determine whether the substance of the relationship between BOM and banks under receivership indicates that these banks are controlled by BOM and, hence, should be consolidated by BOM. In making this judgement Management takes into account the following:

- the receiver is appointed by BOM following the requirements of the Law;
- the receiver effectively acts in a fiduciary capacity and has narrow objective to wind up the bank and there are no any strategic decisions to be made;
- the receiver acts within the prescribed legal framework and the order of priority of liabilities is also set by the legislation, therefore the receiver cannot use its power specifically with the aim to influence benefits attributable to Bank of Mongolia;
- although Bank of Mongolia may issue loans to banks under receivership, these loans are provided effectively on behalf of the Government as it is the Government's responsibility under the Law to guarantee repayment of customer deposits; therefore Management believes that the benefits receivable by Bank of Mongolia from such loans will be ultimately in the form of Government bonds;
- further, benefits received from receivership are limited with low variability.

Based on above, although Bank of Mongolia has power to govern activities of banks under receivership, it can not use that power to influence its own benefits as those benefits are independent from performance of banks under receivership. Therefore management believes that these banks should not be consolidated into these financial statements.

Going concern. Management prepared these financial statements on a going concern basis. As of 31 December 2012 that Bank has negative equity position, mainly caused by foreign exchange translation losses and raising provision against loans to local banks (Note 12). Management believes that there is no risk that the Bank will not be able to continue as a going concern in foreseeable future. BOM is the issuer of national currency, and therefore the Bank is not exposed to MNT liquidity risk. As disclosed in Note 2, the Bank's liabilities expected to be settled within one year, are fully covered by assets expected to be recovered within one year.

4 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank from 1 January 2012:

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes 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. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure are required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Bank's financial statements.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Bank has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the 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.
- An 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 payments of principal and interest only (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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The amendment is not expected to have a material impact on the Bank's financial statements.

IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Management is currently assessing the impact of the amendments on the Bank's financial statements.

5 New Accounting Pronouncements (Continued)

IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. Management is currently assessing the impact of the amendments on the Bank's financial statements.

IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. Management is currently assessing the impact of the amendments on the Bank's financial statements.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Bank does not expect the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Bank does not expect any impact of the amended standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank does not expect the amendments to have any material effect on its financial statements.

Disclosures-Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying 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 Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.

5 New Accounting Pronouncements (Continued)

Amendments to IFRS 1 "Presentation of Financial Statements" (issued 13 March 2012 and effective for annual periods beginning on or after 1 January 2013). This amendment addresses accounting for a government loan with a below-market rate of interest when transitioning to IFRSs by a first-time adopter. Earlier application is permitted. The amendment will have no impact on the financial statements of the Bank.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning on or after 1 January 2013). The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

6 Cash and Cash Equivalents

*In millions of Mongol*ian Togrog	Note	31 December 2012	31 December 2011
Cash in hand		28,317	44,505
Due from foreign financial institutions:			
- Short term deposits in foreign currency	7	2,789,889	2,059,287
- Demand deposits	7	387,748	87,290
- Special drawing rights holdings	7	94,647	97,153
Liabilities due to government organizations (in national currency)		(703,445)	(858,660)
Demand account of banks (in national currency)	17	(842,958)	(645,501)
Total cash and cash equivalents		**1,754,198**	**784,074**

The above balances are presented as cash and cash equivalents for the purposes of the Statement of Cash Flows.

The credit quality of financial assets that represent cash and cash equivalents may be summarised, based on the lowest of the ratings assigned by Standard and Poor's, Fitch Ratings and Moody's, as follows at 31 December 2012:

In millions of Mongolian Togrog	Demand deposits	Short term deposits in foreign currency
Neither past due nor impaired		
- AAA rated	30,820	334,145
- from AA- to AA+ rated	270,930	2,455,744
- from A- to A+ rated	85,998	-
Total due from foreign financial institutions included in cash and cash equivalents, excluding special drawing rights holdings	**387,748**	**2,789,889**

The credit quality of financial assets that represent cash and cash equivalents may be summarised, based on the lowest of the ratings assigned by Standard and Poor's, Fitch Ratings and Moody's, as follows at 31 December 2011:

In millions of Mongolian Togrog	Demand deposits	Short term deposits in foreign currency
Neither past due nor impaired		
- AAA rated	37,364	58,720
- from AA- to AA+ rated	49,926	2,000,567
Total due from foreign financial institutions included in cash and cash equivalents, excluding special drawing rights holdings	**87,290**	**2,059,287**

When counterparty is a central bank or international financial institution, which is not rated (such as Bank of England), its rating is equivalent to the country credit rating. Cash on hand and special drawing rights holdings in IMF do not expose the Bank to credit risk.

The geographical analysis, currency risk analysis, interest rate risk analysis, and maturity analysis are disclosed in Note 27.

7 Due from Foreign Financial Institutions

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Short term deposits in foreign currency	2,789,889	2,059,287
Demand deposits	387,748	87,290
Restricted cash	604	590
Special drawing rights holdings	94,647	97,153
World Bank subscription	87	256
Other subscriptions	4	4
Total due from foreign financial institutions	**3,272,979**	**2,244,580**

Short term deposits in foreign currency. This balance represents short term time deposits with foreign central banks and other financial institutions which are denominated in USD and Euro with initial maturity periods up to 90 days (2011: 90 days).

Demand deposits. This balance represents current account deposits with foreign central banks and other financial institutions which are non-interest bearing.

Restricted cash. This balance represents an amount of CHF 397,703 MNT equivalent being MNT 604 million (2011: MNT 590 million), which is blocked by the District Court of Zurich at the request of third parties. For details on this litigation refer to Note 26.

Special Drawing Rights Holdings. This balance represents the Bank's holding of special drawing rights to supplement existing reserve assets related to the subscription to International Monetary Fund. As at 31 December 2012 the balance is SDR 44.1 million (2011: SDR 45.5 million) and is interest bearing.

World Bank subscription. This balance represents the deposits and quota at the World Bank, as part of the condition to be a member of the World Bank group. This amount is matched by a corresponding liability (see Note 18) and is non-interest bearing.

All balances are neither past due nor impaired and management believes that they are fully recoverable, as funds are placed in the central banks of OECD countries and other reputable international institutions. Given that most of these balances represent cash and cash equivalents, their credit quality based on ratings of international rating agencies is disclosed in Note 6. Remaining balance relates to special drawing rights holdings in IMF and World Bank subscriptions, which do not expose the Bank to credit risk, and restricted cash balances, which are not material, in management's view.

None of these balances are collateralised. Management believes that fair value of these balances approximates carrying value. The geographical analysis, currency risk analysis, interest rate risk analysis, and maturity analysis are disclosed in Note 27.

8 Financial Investments – Available for Sale

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Debt instruments available for sale:		
Bonds of Bank for International Settlements denominated in US dollars	-	209,456
RAMP Investment Account Assets	139,469	-
Equity securities available for sale:		
Equity investments at cost	3,084	3,084
Total financial investments available for sale	**142,553**	**212,540**

8 Financial Investments – Available for Sale (Continued)

RAMP Investment Account Assets. In May 2011 the Bank entered into Investment Management and Consulting Agreement with International Bank for Reconstruction and Development ("IBRD"). The Bank appointed IBRD as its agent and attorney in fact for the purpose of investing and reinvesting Investment Account Assets and to provide consulting services. Initial investment into this arrangement was made in the amount of USD 100 million in January 2012.

As of 31 December 2012 the Investment Account Assets consist of cash balance in the amount of USD 9.7 million (MNT 13,484 million), securities in the amount of USD 90.5 million (MNT 126,041 million) and net payable for not settled securities of USD 0.04 million (MNT 56 million). The settlement date for unsettled purchased and sold securities is 2 January 2013. The custodian of the Investment Account Assets is Federal Reserve Bank of New York.

The securities representing major part of investment account assets mainly include US Treasury bills and securities issued by other governmental agencies.

Credit quality of debt securities included in Investment Account Assets, is ranging from AA- to AAA based on the lowest of the ratings assigned by Standard and Poor's, Fitch Ratings and Moody's.

Equity investments at cost. Unquoted equities represent investments in Mongolian Mortgage Corporation, International Investment Bank and International Bank of Economic Co-operation. The investments are recorded at cost. There is no market for these investments and the Bank intends to hold them on a long term basis.

Based on available financial information of the investees, management believes that there are no indications of impairment for these investments as of 31 December 2012 and 31 December 2011.

9 Reverse Repurchase Agreements

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Reverse repurchase agreements	2,031,631	678,496
Total reverse repurchase agreements	**2,031,631**	**678,496**

The Bank entered into Automatic Investment Programme arrangement in respect of its deposit account held with Federal Reserve Bank of New York. Under this programme, amounts exceeding minimum balance of USD 100,000 are to be invested in Repurchase Agreement Pool ("repo pool") of Federal Reserve Bank of New York. As at 31 December 2012 the funds invested in repo pool amounted to USD 1,459.4 million (equivalent of MNT 2,031,631 million). This investment have two days maturity and carries interest rate of 0.17% per annum. Though related investments are effectively collateralised, there is no clear identification of securities purchased using this pool based on the investment program. For more information refer to Note 27.

All reverse repurchase agreements were considered neither past due nor impaired and were AA+ rated as of 31 December 2012 and 31 December 2011, based on the lowest of the ratings assigned by Standard and Poor's, Fitch Ratings and Moody's.

10 Gold Bullion and Precious Metals

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
At valuation		
Gold bullion	271,909	245,564
Silver	42	383
At cost		
Gold and silver ore	165,574	19,289
Coins and cultural valuables	2,144	2,849
Total gold bullion and precious metals	**439,669**	**268,085**

The Bank holds gold bullion in the reputable foreign banks. Other items (silver, gold and silver ore, and coins and cultural valuables) are held in the Bank's central vault. These items include gold purchased from miners, which is held in the Bank's Central Vault before sending for refinement. After refinement, gold is traded or delivered to the reputable foreign banks as gold bullion.

11 Government Securities

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Ministry of Finance securities, at amortised cost	159,210	155,276
Total government securities	**159,210**	**155,276**

As of 31 December 2012 the Bank has investments in the following government securities issued by the Ministry of Finance:

- *bonds related to Zoos Bank with outstanding amount of MNT 26,595 million (2011: outstanding amount of MNT 24,182 million).*
- *bonds issued for financing mortgage loans for civil servants by the Government with outstanding amount of MNT 30,000 million (2011: MNT 30,000 million).*
- *bonds issued for supporting SMEs and cashmere industry by the Government with outstanding amount of MNT 100,000 million (2011: MNT 100,000 million).*

The remaining amounts as of 31 December 2012 and 31 December 2011 represent accrued interest.

On 26 March 2010, the Ministry of Finance of Mongolia has issued government bonds of MNT 33 billion to replace the loan to a local bank (Zoos Bank) issued in prior years, which was under receivership. The bonds bear nominal interest of 0.1% per annum with maturity period of 4-6 years, whereas the interest of loan issued to Zoos Bank was 10%. The bond as at 26 March 2010 was recorded at fair value using the original effective interest rate on the underlying loan of 10% p.a., which approximates market rate of government bonds at the time of initial recognition. As at 31 of December 2012 and 31 December 2011 the bond was recorded at amortised cost in the statement of financial position.

The securities for financing mortgage loans of civil servants are issued for a period of 5 years and bear interest of 7.8% per annum. Bonds issued for supporting SMEs and cashmere industry have the following terms: 2 year maturity and interest rate of 12.25% per annum. These bonds were issued in December 2011.

These securities are measured at amortised cost. All of the above balances are considered neither past due nor impaired and were BB- rated as of 31 December 2012 and 31 December 2011, based on the lowest of the ratings assigned by Standard and Poor's, Fitch Ratings and Moody's. None of government securities are collateralised. For more information on related party transactions refer to Note 31. Fair value of these securities is disclosed in Note 29.

12 Loans to Local Banks

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Loans issued under Price Stabilization Program	188,360	-
Reverse sale and repurchase agreements	92,322	223,244
Loans related to Anod Bank	89,490	102,000
Other loans in local currency	8,070	11,029
Loans in foreign currency	6,058	5,233
Total loans to local banks before provision for impairment	**384,300**	**341,506**
Less: Provision for loan impairment	(89,490)	(925)
Total loans to local banks	**294,810**	**340,581**

Loans issued under Price Stabilization Program. Starting from November 2012 the Bank has issued loans in MNT to local banks in the amount of MNT 204,702 million for further lending to local companies from petroleum and food sectors as part of Government Price Stabilisation Program. These loans were issued under terms and conditions defined by Government joint resolutions and the Bank has no discretion in defining the terms. In addition, decisions on participation of particular companies in the program are also taken by the Government and the companies selected are entitled to obtain loans, which are refinanced by the Bank of Mongolia, from any commercial bank.

In accordance with the government instructions the interest rate at which the loans have been granted to commercial banks is 0.89% per annum, which is below market rate. The fair value of these loans at initial recognition was MNT 186,924 million. The difference between nominal value of these loans and their fair value totalling MNT 17,895 million was charged to profit or loss for the year. Refer to Note 3.

Reverse repurchase agreements. Reverse repurchase agreements represent short term loans to local banks secured by Central Bank bills (refer to Note 15) to resell at a certain date in the future at a fixed price. The maturity of these instruments is up to one month and they bear interest rate of 17.3% per annum. These balances are considered neither past due nor impaired.

12 Loans to Local Banks (Continued)

Loans related to Anod Bank. The Bank has signed the loan agreement with the Receivership of Anod Bank on 12 December 2008 in order to provide short-term liquidity to Anod Bank, which has been put under receivership. The main purpose of the loan was to finance required amount of money to recover customer deposits of Anod Bank in accordance with Blanket Guarantee Law, which states that the Government of Mongolia guarantees that citizens' deposits placed in the Mongolian commercial banks are recoverable and will be returned to citizens in the case of the default or bankruptcy of commercial bank.

The loan agreement represents a credit line with maximum amount of MNT 147.9 billion. Based on the agreement Anod Bank can request tranches, while total outstanding amount should not exceed this limit. Each tranche should be returned within 6 months from its origination. The interest rate is equivalent to the interest rate of 7 day Central Bank bills, which was 9.75% p.a. at the time of the origination of this loan arrangement. Based on the agreement, interest shall be accrued every 90 days and deducted directly from the current account of Anod Bank. The loans to Anod Bank under this arrangement are collateralized by Anod Bank's loans issued to customers in the amount of MNT 186.3 billion. The first tranche was disbursed immediately upon signing of the Agreement, on 12 December 2008.

Due to difficulties faced in collection of these loans, maturity date of loans was extended from 6 months to 12 months, based on the Appendix to the agreement dated 28 July 2009. Further, no contractual interest was accrued for the loans since 2009, while recoveries during 2010 and 2011 were not significant. Consequently, no new loans were approved during 2010 and 2011, and the Bank has started negotiation process with the Government of Mongolia and the Ministry of Finance related to recovery of these loans.

During 2010 and 2011 the Bank recovered MNT 7.6 billion and MNT 18 billion respectively and further MNT 12.5 billion were collected during 2012 through receivership process, in particular collection of Anod Bank's loans and advances to customers.

Prior to 2012 management was of the opinion that these loans were recoverable from the Government of Mongolia through the issuance of a government bond by the Ministry of Finance, which was to be used for repayment of receivables due from Anod Bank. For this reason, during 2010 the Bank has released the impairment provision previously recorded on these loans as management was not able to estimate provision due to uncertain timing of cash flows. However, the issuance of the government bond was not approved by the Parliament of Mongolia during 2012. Taking into account high uncertainty of the issuance of the government bond, the Bank raised 100 percent provision against loans related to Anod Bank in 2012. Refer to Note 3.

Other loans in local currency. The loans in local currency, consist of overnight placements (loans) to local banks in the amount of MNT 6,100 million at interest rate of 22.25% per annum (2011: MNT 5,000 million), and loans to local banks related to the program of Asian Development Bank (ADB) in the amount of MNT 1,406 million (2011: MNT 1,362 million). In addition, as of 31 December 2011 the Bank had a loan to local commercial bank in the amount of MNT 4,667 million, which was fully repaid during 2012. The remaining amounts relate to accrued interest.

The loans related to ADB programmes were disbursed to various local banks in Mongolia, for the further on-lending to Mongolian enterprises. The funding was made available under two separate programmes by the Asian Development Bank to create more job opportunities for the people of Mongolia and to develop the agricultural sector in the country. The loans under the first programme bear interest at the rate of 10% (2011: 10%) per annum and the repayment terms for each disbursed loan vary according to the date of disbursement. The loans under the second programme bear interest at the rate of 5.5% (2011: 5.5%) per annum with the maturity of up to one year for each loan disbursed. The Bank's credit risk does not depend on the repayments of these funds by the borrowers, as BOM has right to automatically withdraw funds from the accounts of commercial banks with BOM when repayments are due. For management's judgements related to these loans refer to Note 3.

12 Loans to Local Banks (Continued)

Loans in foreign currency. The loans in foreign currency consist mainly of loans disbursed to local banks to promote small and medium scale companies in the amount of MNT 5,435 million (2011: MNT 4,525 million) and loans for improving commercial banks' systems and enhancing capability of banking specialists in the amount of MNT 623 million (2011: MNT 657 million). The remaining amount in 2011 refers to accrued interest.

Loans disbursed to local banks for further on-lending to Mongolian enterprises to promote small and medium scale companies were made available under two separate programmes by the Government of Germany through KfW. For more details on these programmes and related BOM’s liabilities to the Ministry of Finance, refer to Note 16. The loans under both programmes bear interest at the rate ranging from 1.25% to 1.75% (2011: 1.25% to 1.75%) per annum and are not backed by any security. The loans under both programmes are disbursed through three local banks to the borrowers which meet specific criteria set by KfW. Accordingly, the repayment terms for each disbursed loan vary according to the date of disbursement. The Bank’s credit risk does not depend on the repayments of these funds by the borrowers, as BOM has the right to automatically withdraw funds from the accounts of commercial banks with BOM when repayments are due. For management’s judgements related to these loans, refer to Note 3.

Loans for improving commercial banks' systems and enhancing capability of banking specialists are provided by the Bank to commercial banks to finance the training conducted by DAI (Thailand) Limited Company for bank staff at the Banking Training Centre in accordance with the agreement signed between Mongolia and the Asian Development Bank. Repayment period of this loan is 14 years.

Movements in the provision for loan impairment during 2012 are as follows:

In millions of Mongolian Togrog	**Loans in local currency**	**Loans related to Anod Bank**	**Total**
Provision for loan impairment at 1 January 2012	**925**	**-**	**925**
(Reversal)/provision for impairment during the year (Note 24)	(925)	89,490	**88,565**
Provision for impairment at 31 December 2012	**-**	**89,490**	**89,490**

No provisions have been raised against loans issued under Price Stabilization Program, reverse sale and repurchase agreements, and loans in foreign currency as at 31 December 2012 or 31 December 2011 as these loans showed no signs of impairment, refer also to Note 3.

There were no movements in provision for loan impairment during 2011.

12 Loans to Local Banks (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In millions of Mongolian Togrog	Loans issued under Price Stabilization Program	Reverse sale and repurchase agreements	Loans related to Anod Bank	Loans in local currency	Loans in foreign currency	Total
Neither past due nor impaired						
- B	103,927	62,959	-	396	5,638	**172,920**
- Unrated	84,433	29,363	-	7,674	420	**121,890**
Total neither past due nor impaired	**188,360**	**92,322**	**-**	**8,070**	**6,058**	**294,810**
Loans determined to be individually impaired						
- over 360 days overdue	-	-	89,490	-	-	**89,490**
Total individually impaired loans	**-**	**-**	**89,490**	**-**	**-**	**89,490**
Less impairment provision	-	-	(89,490)		-	**(89,490)**
Total loans to local banks	**188,360**	**92,322**	**-**	**8,070**	**6,058**	**294,810**

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In millions of Mongolian Togrog	Reverse sale and repurchase agreements	Loans related to Anod Bank	Loans in local currency	Loans in foreign currency	Total
Neither past due nor impaired					
- BB-	200,486	-	5,000	3,711	**209,197**
- B+	-	-	5,020	-	**5,020**
- Unrated	22,758	-	1,009	1,522	**25,289**
Total neither past due nor impaired	**223,244**	**-**	**11,029**	**5,233**	**239,506**
Loans determined to be individually impaired					
- over 360 days overdue	-	102,000	-	-	**102,000**
Total individually impaired loans	**-**	**102,000**	**-**	**-**	**102,000**
Less impairment provision	-	-	(925)	-	**(925)**
Total loans to local banks	**223,244**	**102,000**	**10,104**	**5,233**	**340,581**

As disclosed in Note 27, the biggest Mongolian commercial banks are rated by international rating agencies. The analysis above was prepared based on the lowest of ratings assigned by international rating agencies. In case of unrated Mongolian commercial banks, the Bank considers financial conditions of related commercial bank based on the recent financial information, compliance with prudential ratios, and other information available for assessing credit quality of related assets.

12 Loans to Local Banks (Continued)

Information about collateral at 31 December 2012 is as follows:

In millions of Mongolian Togrog	Loans issued under Price Stabilization Program	Reverse sale and repurchase agreements	Loans related to Anod Bank	Loans in local currency	Loans in foreign currency	Total
Unsecured	188,360	-	-	8,070	6,058	**202,488**
Loans collateralised by:						
- Central bank bills	-	92,322	-	-	-	**92,322**
- Commercial loans	-	-	89,490	-	-	**89,490**
Collateralised loans	**-**	**92,322**	**89,490**	**-**	**-**	**181,812**
Total loans to local banks before provision for impairment	**188,360**	**92,322**	**89,490**	**8,070**	**6,058**	**384,300**

Reverse sale and repurchase agreements are collateralised by Central bank bills issued to respective banks, which are disclosed within Note 15. These financial instruments are considered to be over-collateralised. The fair value of Central bank bills approximates the carrying amount of reverse sale and repurchase agreements as of 31 December 2012. Information on the collateral for loans related to Anod Bank is disclosed below.

Information for collateral at 31 December 2011 is as follows:

In millions of Mongolian Togrog	Reverse sale and repurchase agreements	Loans related to Anod Bank	Loans in local currency	Loans in foreign currency	Total
Unsecured	-	-	11,029	5,233	**16,262**
Loans collateralised by:					
- Central bank bills	223,244	-	-	-	**223,244**
- Commercial loans	-	102,000	-	-	**102,000**
Collateralised loans	**223,244**	**102,000**	**-**	**-**	**325,244**
Total loans to local banks before provision for impairment	**223,244**	**102,000**	**11,029**	**5,233**	**341,506**

Based on the terms of the Agreement with Receivership of Anod Bank, related loans are collateralised by the loan portfolio of Anod Bank. As disclosed above, Anod Bank is currently in liquidation. Therefore management is not able to assess recoverable amount of loan portfolio of Anod Bank and consequently the financial effect of collateral with sufficient reliability.

13 Property, Equipment and Intangible Assets

In millions of Mongolian Togrog	Buildings/ premises	Const-ruction in progress	Office and computer equipment	Total premises and equipment	Intangible assets	Total
Cost or valuation at 1 January 2011	23,516	137	8,339	31,992	2,077	34,069
Accumulated depreciation/amortization	(3,002)	-	(4,402)	(7,404)	(1,097)	(8,501)
Carrying amount at 1 January 2011	20,514	137	3,937	24,588	980	25,568
Additions	404	396	987	1,787	179	1,966
Disposals	-	-	(2)	(2)	-	(2)
Write-offs	-	-	(4)	(4)	-	(4)
Depreciation/amortization charge (note 25)	(384)	-	(986)	(1,370)	(155)	(1,525)
Carrying amount at 31 December 2011	20,534	533	3,932	24,999	1,004	26,003
Cost or valuation at 31 December 2011	23,920	533	9,320	33,773	2,256	36,029
Accumulated depreciation/amortization	(3,386)	-	(5,388)	(8,774)	(1,252)	(10,026)
Carrying amount at 31 December 2011	20,534	533	3,932	24,999	1,004	26,003
Additions	814	-	1,652	2,466	108	2,574
Disposals	-	-	(138)	(138)	-	(138)
Transfers	499	(499)	-	-	-	-
Write-offs	-	-	(8)	(8)	-	(8)
Depreciation/amortisation charge (note 25)	(389)	-	(1,140)	(1,529)	(271)	(1,800)
Carrying amount at 31 December 2012	21,458	34	4,298	25,790	841	26,631
Cost or valuation at 31 December 2012	25,233	34	10,826	36,093	2,364	38,457
Accumulated depreciation/amortization	(3,775)	-	(6,528)	(10,303)	(1,523)	(11,826)
Carrying amount at 31 December 2012	21,458	34	4,298	25,790	841	26,631

13 Property, Equipment and Intangible Assets (Continued)

In accordance with the regulations effective in Mongolia, the Bank is obliged to perform revaluation of buildings once in five year period. The last valuation was performed as of 31 December 2008 by independent appraisers Property Appraisal Centre LLC. The Bank changed its accounting policy in 2012 and added that annual fair value assessment should be performed and in case of significant differences between carrying value and current market value, carrying value should be adjusted. Management believes that carrying amounts as of 31 December 2012 and 31 December 2011 approximate fair value of buildings.

If average prices would be 20% higher compared to prices taken into account in the current carrying value, the carrying value of buildings and revaluation reserve within other reserves would increase by approximately MNT 4,292 million as of 31 December 2012 (MNT 4,106 million as of 31 December 2011). If average prices would be 20% lower compared to prices taken into account in the current carrying value, carrying value of buildings and the Bank's revaluation reserve would decrease by approximately MNT 4,292 million as of 31 December 2011 (MNT 4,106 million as of 31 December 2011). Management believes that an overall decrease in value of the Bank's buildings is unlikely under the current economic conditions, while any potential increase in value of buildings (leading to increase in property, equipment and intangible assets and equity) would not have material impact on the financial statements from the perspective of users of financial information.

Had the re-valued buildings been carried at historical cost, the net book value of the buildings that would have been included in the financial statements of the Bank as at 31 December 2012 would have been MNT 14,899 million (2011: MNT 13,848 million).

The building with carrying value of MNT 1,641 million (2011: MNT 1,666 million) has been pledged as security for borrowings as disclosed in Note 18.

14 Other Assets

In millions of Mongolian Togrog	Note	31 December 2012	31 December 2011
Other financial assets			
Receivables from companies		43,896	43,946
Claims on foreign financial institutions		12,169	12,208
Derivative financial instruments	28	834	2,002
Interest receivables due from the Ministry of Finance		-	3,177
Less: Provision for impairment		(56,065)	(56,154)
Other non-financial assets			
Prepaid expenses		6,217	870
Other		370	99
Total other assets		**7,421**	**6,148**

Receivables from companies include receivables due from gold producing companies that have not fulfilled their obligations under the gold option contracts entered into with the Bank in prior years. These receivables amount to MNT 26,632 million (2011: MNT 26,769 million), are considered impaired and thus they are fully provided for. The Bank no longer enters into gold option contracts. Remaining balances due from companies are also considered impaired and fully provided as of 31 December 2012 and 31 December 2011.

These outstanding balances of period from 2005 to 2007 had resulted in non-compliance of the Bank with Article 23 of the Law on Central Bank which states that it is prohibited for the Bank to take deposits from or extend credit or provide settlement services to individuals or legal entities other than the Government of Mongolia and banks. Management issued regulation No. 99 on 26 February 2003, which relates to conducting trade deals when gold miner or trader requests trade deal. In accordance with this regulation the Bank made its internal investigation and has identified cases of non-compliance.

Claims on foreign financial institutions are considered to be non-recoverable and thus fully provided, as related foreign institutions are no longer operating.

14 Other Assets (Continued)

Other non-financial assets mainly consist of prepayments, advances to staff, consumable materials and stationary supplies. Prepaid expenses as of 31 December 2012 mostly relate to new banknote orders which were placed and paid during 2012, but are expected to be delivered in 2013.

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

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
At 1 January	56,154	54,917
Translation of provisions denominated in foreign currency	(140)	4,773
Provision charge for impairment (Note 24)	218	-
Recoveries of impairment provision (Note 24)	(167)	(3,536)
At 31 December	**56,065**	**56,154**

15 Central Bank Bills

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Central Bank bills issued	752,151	879,113
Total Central Bank bills	**752,151**	**879,113**

This balance represents Bank of Mongolia bills issued to local banks. Such bills have maturities between 7 days to 28 weeks (2011: 7 days to 24 weeks) and bear interest rates ranging from 13.25% to 17.25% as of 31 December 2012 (2011: from 10.4% to 16.25%. The Bank uses Central Bank Bills to withdraw excessive cash from the economy to control inflation.

15 Liabilities Due to Government Organisations

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Liabilities to the Ministry of Finance related to borrowings:		
- Government of Germany (KfW)	13,443	13,741
- Asian Development Bank (ADB)	6,990	7,055
Current accounts of Ministry of Finance	2,939,253	1,150,094
Total liabilities due to government organizations	**2,959,686**	**1,170,890**

Ministry of Finance accounts. This relates to various current accounts that the Ministry of Finance maintains with the Bank.

Liabilities due to the Ministry of Finance related to borrowings from international organisations. These liabilities relate to the borrowing agreements signed by the Government of Mongolia with KfW (acting on behalf of the Government of Germany) and Asian Development Bank (ADB). The Ministry of Finance of Mongolia acts as fiscal agent with regard to these agreements, while the Bank of Mongolia acts as project executing agency.

The loans received from the Government of Germany under the credit programme for small and medium enterprises (SMEs) are made available under two separate programmes in 1995 and 2003. The loans under both programmes are denominated in Euro with maturity of 40 years and bear interest at 0.75% per annum (2011: 0.75% per annum). The repayment of loan principal commenced in 2012.

16 Liabilities Due to Government Organisations (Continued)

The loans received from the ADB are mainly for purposes of reducing poverty in Mongolia by developing and promoting private enterprises, and providing training and consultancy to the Government, non-government organisations and local banks. The related agreements were signed in 1994 and 1997 and related loans bear interest ranging from 1% to 1.5% per annum (2011: 1% to 1.5% per annum) and have maturity ranging from 30 to 40 years.

The Bank has no obligations toward KfW and ADB, as the Ministry of Finance acts as a fiscal agent of the Government of Mongolia. However, the Bank, as project executing agency, was responsible for channelling funds to commercial banks, which further channelled funds to final customers (borrowers) who meet criteria specified by KfW and ADB. However, the Bank has liabilities to the Ministry of Finance related to these agreements. Based on the arrangement between the MOF and BOM, the BOM has borrowed related funds from the MOF under the same conditions, as in agreement with KfW and ADB. Further, BOM also acts as a depository i.e. it is responsible for settling payments from the account of the Ministry of Finance with regard to KfW. Loans issued to local banks from these funds are disclosed in Note 12. For management's judgement related to these liabilities to MOF and loans to local banks, refer to Note 3.

Balances and transactions with related parties are disclosed in Note 31.

17 Deposits from Local Banks

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Correspondent accounts:		
- in national currency	842,958	645,501
- in foreign currency	528,713	369,729
Total deposits from local banks	**1,371,671**	**1,015,230**

This balance mainly consists of various deposit accounts and obligatory reserves of local banks maintained with the Bank, calculated as a percentage of their eligible liabilities to deposit holders.

18 Liabilities Due to Foreign Parties

In millions of Mongolian Togrog	**31 December 2012**	**31 December 2011**
Secured		
Loan from HSBC, London	389	565
Unsecured		
Loan from People's Bank of China	470,788	-
International Monetary Fund ("IMF")		
- IMF No.1 account	272	272
- IMF No.2 account	6	6
- Allocation of Special Drawing Rights ("SDR")	104,628	104,197
Subscription to World Bank	87	256
Subscription to IDA	34	34
Current account of WorldBank	210	77
Current account of ADB	-	5
Total liabilities to foreign parties	**576,414**	**105,412**

18 Liabilities Due to Foreign Parties (Continued)

Loan from HSBC, London. This balance represents a 10 year term loan from HSBC, London for the purpose of funding the acquisition of a property. The repayment of loan principal had commenced in 2005 and bears interest at 1.75% above HSBC's base rate per annum. The loan is secured by a building as referred in Note 13.

Loan from People's Bank of China. This balance represents a 6 month loan denominated in CNY from People's Bank of China that was used by BOM during 2012 mainly to sell CNY against MNT to local banks. Accrued Interest related to loan from People's Bank of China is computed based on SHIBOR+200 bps and represents interest expense for the used CNY amount, refer to Note 26.

Allocations of Special Drawing Rights. IMF member countries are allocated SDR in proportion to their subscription to the IMF. The allocation represents a dormant liability of the Bank to the IMF, against which assets are received in SDR Holdings account from the IMF as referred in Note 7. The net accumulation of the allocation was MNT 104,628 million (2011: MNT 104,197 million) equivalent to SDR 48.757 million (2011: SDR 48.757 million).

Subscription to World Bank and IDA. The balance represents the Bank's subscription obligations to World Bank and IDA.

19 Other Liabilities

In millions of Mongolian Togrog	**Note**	**31 December 2012**	**31 December 2011**
Other financial liabilities			
Initial capital contribution for local banks		2,000	3,000
Deposits by non-banking entities		7,030	4,061
Derivative financial instruments	28	1,233	-
Other payables		6,545	6,653
Other liabilities			
Social development fund		9,209	8,740
Provision for claims under documentary letter of credit issued		36,464	35,618
Total other liabilities		**62,481**	**58,072**

Initial capital contributions relate to special purpose accounts for the purpose of increase of share capital of Mongolian commercial banks. These accounts have restricted use i.e. they are used only for making investments in respective banks. Initial capital contributions as of 31 December 2012 represent share capital increase of Credit Bank (31 December 2011: Savings Bank).

Based on its internal regulations, the Bank allocates certain funds to the Social development fund which is used for improving living and working conditions of the Bank's employees. These funds are used for payment of retirement benefits to the Bank's employees, financing construction of apartments for the Bank's employees, help to employees in need etc. Management believes that allocated funds in social development fund are sufficient as of 31 December 2012 and 31 December 2011 to cover outstanding obligations. Related expenses are disclosed in Note 25.

Derivative financial instruments represent SWAP transactions with local banks that have maturity in 2013 and forward transactions with local banks related to Price Stabilisation program for fuel industry, which are mandatory to be concluded when a loan is granted. Refer to Note 28.

Deposits by non-banking entities relate to deposits from the government organisation Central Depository.

Provision for claims under documentary letter of credit issued relates to the litigation which was initiated in 2008. Management believes that losses would be incurred with regard to this litigation and has made a provision in 2009 accordingly. There were no movements in provision during 2011 and 2012 apart from the impact of foreign exchange fluctuations. For more details on this litigation refer to Note 26. Related letters of credit are included in the amount of export letters of credit disclosed in Note 26.

20 Charter Fund and Other Reserves

In millions of Mongolian Togrog	31 December 2012	31 December 2011
Charter fund	5,000	5,000

The Bank is wholly owned by the state of Mongolia. The Charter Fund represents the capital of the Bank. In accordance with the Law on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income for the year has to be allocated to its General Reserve Fund, while the remaining amount (i.e. maximum 60% of net income) can be transferred to the State Budget account. Thus, general reserve fund includes only such portions of net income accumulated over years (40% of annual net income or higher percentage), over which the Bank have the full right to utilize them. This reserve fund does not include amounts that were distributed to the State budget in the past or which can be distributed in the future, as these portions have been already transferred to the Government in respective years. As of 31 December 2010, the Bank has decided to transfer the amount of general reserve to retained earnings after taking into consideration substantial loss incurred during the year. There were no transfers to general reserve in 2011 and 2012, as the Bank has realised net loss in 2012, while in 2011 profit for the year was mostly due to unrealised foreign exchange translation gains and unrealised gains for gold, which are allocated to respective other reserves.

Other reserves comprise the following:

In millions of Mongolian Togrog	31 December 2012	31 December 2011
Foreign currency revaluation fund	106,527	92,326
Revaluation reserve for precious metals	36,080	20,789
Revaluation reserve for premises	7,788	7,788
Revaluation reserve for financial investments available-for-sale	(342)	42
Total other reserves	**150,053**	**120,945**

For more details on other reserves, refer to Note 2.

21 Interest Income and Expense

In millions of Mongolian Togrog	2012	2011
Interest income		
Loans to local banks	20,022	2,356
Government securities - at amortised cost	17,279	4,975
Loans to Government organisations	15,753	3,177
Due from foreign financial institutions	3,489	6,796
Financial investments - available-for-sale	1,157	2,152
Other interest income	1,649	213
Total interest income	**59,349**	**19,669**
Interest expense		
Central Bank bills	(84,351)	(114,938)
People's Bank of China	(10,042)	-
Liabilities due to government organizations	(9,778)	(3,841)
Other interest expense	(602)	(202)
Total interest expense	**(104,773)**	**(118,981)**
Net interest expense	**(45,424)**	**(99,312)**

22 Net Gain from Trading of Gold and Precious Metals

In millions of Mongolian Togrog	**2012**	**2011**
Unrealized gain on revaluation of gold	15,291	14,331
Gain on gold trading	3,604	22,503
Other precious metals trading	1,858	6,827
Transportation and refining cost	(304)	(231)
Net gain from trading of gold and precious metals	**20,449**	**43,430**

23 Foreign Exchange Gains Less Losses

In millions of Mongolian Togrog	**2012**	**2011**
Unrealised gains less losses on translation of foreign exchange	14,201	222,769
Realised (loss)/gain on translation and trading of foreign exchange	(37,937)	29,416
Other foreign exchange gains less losses	42	121
Foreign exchange gains less losses	**(23,694)**	**252,306**

24 (Provision)/Reversal of Provision for Impairment

In millions of Mongolian Togrog	**Note**	**2012**	**2011**
Other assets	14	(51)	3,536
Loans to local banks	12	(88,565)	-
(Provision)/reversal of provision for impairment		**(88,616)**	**3,536**

25 Administrative and Other Operating Expenses

In millions of Mongolian Togrog	Note	2012	2011
Staff cost		7,788	8,268
Cost of printing banknotes		3,274	6,203
Depreciation and amortization of property, equipment and intangible assets	13	1,800	1,525
Legal and professional fees		928	3,060
Telecommunication expenses		794	900
Security expenses		787	605
Transportation and business trip		459	384
Utilities		409	384
Membership and professional fees		390	497
Advertising expenses		335	155
Training expenses		256	339
Property and equipment written-off		117	46
Other operating expenses		1,454	567
Total administrative and other operating expenses		18,791	22,933

25 Administrative and Other Operating Expenses (Continued)

Staff costs consist of expenses for Social Development Fund in the amount of MNT 2,000 million (2011: MNT 4,000 million), net salaries and bonuses of MNT 5,192 million for 2012 (2011: MNT 3,581 million), and social contributions of MNT 596 million (2011: 652 MNT thousand). Included in social security contributions are pension contributions of MNT 379 million (2011: MNT 415 million).

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. Since 2008, the Bank acts as defendant in the legal proceedings held in Swiss and German courts in connection with the payments allegedly due under the issued documentary letters of credit to two financial institutions, which operate in these countries. Though the Bank has been vigorously defending its position in these cases, taking into account its contractual obligations under the issued letters of credit, the Bank has created provision in the amount of its full exposure (including interest) in 2009. Related provision amounts to MNT 36,464 million as of 31 December 2012 (2011: MNT 35,618 million), refer to Note 19.

With regard to these letters of credit, the Bank has initiated litigations against certain individuals and corporations in the United States District Court for the Southern District of Florida for breach of law and other offences (such as fraudulent misrepresentation, negligent misrepresentation, breach of contract, indemnification, unjust enrichment etc.). The amount of claims against these individuals and corporations significantly exceeds the amount of claims against the Bank outlined above. Though the outcome of these proceedings is likely to be favorable for the Bank, there is no sufficient certainty about the recoverability of these receivables from defendants. Thus, the Bank has not recognized receivables related to these claims in these financial statements, though the Bank makes the best efforts to recover claimed amounts.

Management is not aware of any other legal proceedings as of 31 December 2012, in which the Bank acts as defendant and which could result in material losses to the Bank. Thus, management believes that no provision, apart from the provision related to the above claims connected with issued letters of credit, is necessary in these financial statements.

Credit related commitments. The Bank enters into certain credit related commitments, which are deemed to be of importance for the country (e.g. exporting goods and/or services) and/or when such arrangements are requested by the Government of Mongolia or its institutions. The primary purpose of these instruments is to ensure that funds are available to the Government or other relevant parties in these arrangements as required.

Issued letters of credit represent unused portions of authorisations to extend credit in the form of loans or letters of credit, refer to information below. With respect to credit risk on commitments to extend credit, the Bank 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 due to low counterparty risk, as outlined below. Outstanding credit related commitments are as follows:

In millions of Mongolian Togrog	31 December 2012	31 December 2011
Undrawn credit lines - People's Bank of China	89,356	554,075
Export letters of credit	61,856	73,688
Total credit related commitments	151,212	627,763

SWAP Agreement with People's Bank of China. The Bank has entered into "Chinese Yuan / Mongolian Tugrug Bilateral Currency Swap Arrangement between the People's Bank of China and the Bank of Mongolia" in May 2011. Both central banks agreed to establish a bilateral currency swap arrangement for the purpose of promoting bilateral trade for economic development of the two countries, and providing short-term liquidity for stabilization of financial markets.

26 Contingencies and Commitments (Continued)

Based on the agreement, the People's Bank of China (PBoC) and BOM may, from time to time, conduct transactions involving the purchase and sale, and subsequent repurchase and resale, of CNY (Chinese Yuan) against MNT and of MNT against CNY. For these purposes, each central bank has opened a special non-interest bearing account in its national (home) currency for the other party: PBoC has opened account for BOM in CNY while the BOM opened an account in MNT.

Central banks can use this money for financing trade between the two countries, for providing short-term liquidity for stabilization of financial markets, and for other purposes agreed upon by both parties. Based on the agreement, the period of use of funds (i.e. usage period) can be three or six months. Each usage is made upon the request of one bank and approval of another bank. The maximum amounts requested for use are limited to the opened limit of CNY 10 billion when BOM is the requesting party and MNT 2 trillion when PBoC is the requesting party. The bank using funds is obliged to pay interest for the used amount on the date of repayment at interest rates specified by the Agreement. In the case of BOM requests for use of CNY, the interest rate is equivalent to 200 basis points plus the Shanghai Interbank Offered Rate ("SHIBOR") for CNY deposits with corresponding usage period. In the case PBoC requests for use of MNT, the interest rate is equivalent to the Interbank MNT Weighted Rate with corresponding usage period.

As of 31 December 2011, BOM has made an initial purchase of CNY funds of CNY 2.5 billion and sale of MNT to PBoC in the equivalent amount. Thus, its special account with PBoC was debited by this amount, which can be further used if requests for usage of funds are submitted to and approved by PBoC. During the first quarter of 2012, the Bank has requested first usage. Further, credit limit was increased based on bilateral agreement. As of 31 December 2012 CNY 2.1 billion were used by BOM (2011: nil). Related amount in fact represents a CNY denominated loan due to the People's Bank of China, as the Bank is obliged to return this amount in CNY (Note 18). Given that initial purchase represents opening of credit limit which can be used upon further requests, the related amount of CNY 0.4 billion unused amount (MNT 89,356 million) represents the Bank's credit related commitment as of 31 December 2012 (2011: CNY 2.5 billion, MNT 554,075 million equivalent).

Export letters of credit. Export letters of credit are mainly issued to the Government of Mongolia with regard to export arrangements. Through issued letters of credit the Bank is obliged to make payment on behalf of the Government or its institutions to foreign legal entities which provided services or delivered goods to the Government, its institutions or other entities at the Government's request. Further, the recorded amount also includes letters of credit subject to the litigations that are currently held in the Swiss, German and US courts, as disclosed in these financial statements. The Bank has recognised provision for material losses that could be incurred with regard to these legal proceedings (Note 19).

The Bank's management believes that fair value of letters of credit and credit line commitments is not material as of 31 December 2012 and 31 December 2011, apart from the recognised provision for litigation related to letters of credit. The total outstanding contractual amount of undrawn credit lines and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

27 Financial Risk Management

Risk is inherent in the Bank's activity; however it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's management to pursue its monetary policy (including control of inflation), financial stability and business continuity of Mongolian banking operations. At certain times, the Bank may be overly exposed to certain risks and/or take disadvantageous positions of fulfilling its primary objectives and responsibilities, which are typical for central banks and consequently the Bank may incur unexpected financial losses, e.g. losses from translation of foreign currency balances. Such financial losses could be incurred with regard to all financial risks.

27 Financial Risk Management (Continued)

From the financial point of view, the Bank is exposed to credit risk, liquidity risk and market risk. In addition, it is also subject to operational, reputation and legal risks. Currently, the Bank has a decentralized risk management process. Each department is responsible for the independent control of risks, including monitoring the risk of exposures against their activities. Those risks which are unique to the Bank as the central bank of Mongolia are monitored through the Bank's strategic planning process. In addition, the Bank actively explores the possibility of setting up a Risk Committee which would have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits, as well as for making relevant decisions related to monitoring and managing risks. At present, the Investment Committee is responsible for development of risk strategy and making decisions on relevant limits, while the Risk Management Unit and International Economic Department are in charge of implementing principles, frameworks, policies and limits.

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

Board of Directors. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. Further, it provides recommendations on risk management related issues to the Governor and the First Deputy Governor of the Bank.

Supervisory Board. The Supervisory Board has been established outside of the Bank's internal organization in order to maintain an external supervisory role and has the responsibility to monitor the overall risk process within the Bank.

Investment Committee. The Investment Committee is a key body responsible for risk management in the Bank. As such, the Committee is responsible for offering recommendations on the area of risk management policy to the Governor and the Board of Directors. It consists of the First Deputy Governor, Deputy Governor, Director of Risk Management Unit, Director of International Economic Department and Director of Payment and Accounting Department.

The Investment Committee approves the "Annual Investment Policy" and determines acceptable levels of risk. Based on the acceptable risk, the Investment Committee proposes the structure of the State foreign currency reserve for the Governor's approval. The Committee's proposal defines the currency composition of foreign currency reserves and its acceptable variation, asset allocation and its acceptable variance, duration of investments, eligible instruments, counterparties and the counterparty limits. Limits over the foreign currency reserve are approved by the Governor on a quarterly basis and represent the key method used in managing foreign currency risk, as well as credit risk, liquidity risk and interest rate risk.

The risks related to the Bank's foreign currency assets (reserves) are a key area of focus, given the proportion of foreign currency reserves in the Bank's total assets. Thus, the activities of the Investment Committees and departments involved in the risk management process are mainly focused on monitoring and managing risks related to foreign currency reserves. However, the Investment Committee is also responsible for monitoring the activities of the Risk Management Unit and other responsible departments which address financial risks related to the Bank's financial assets and liabilities, and overall compliance with the Bank's investment policy. The methods used in managing financial risks are further outlined below.

Risk management unit. The Risk Management Unit ("RMU") is responsible for implementing and maintaining foreign exchange reserve management and other risk related procedures to ensure an independent control process. RMU is responsible for monitoring compliance with strategic benchmark for foreign exchange reserve management, risk principles, policies and limits. In addition, RMU also ensures the complete capture of risk measures related to the foreign exchange reserves and reporting system.

According to the Regulation on State Foreign Exchange Reserve Management, the objectives of reserve management are subordinated to the Bank's monetary and foreign exchange policies. The main objectives in holding foreign reserves are to:

- *Support monetary policy;*
- *Control excessive volatility of the foreign exchange market;*
- *Guarantee payment of government foreign exchange debt;*
- *Use as a liquidity buffer in the event of national disaster or emergency.*

27 Financial Risk Management (Continued)

Risk management of foreign reserves contributes to these objectives by strategically managing and controlling the exposure to financial and operational risks. The Bank determines strategy for asset selection and allocation to control exposures to external risks. This involves establishing parameters for the currency holding and composition necessary to maintain the ready availability of convertible currencies, the permissible range of investment instruments that meet liquidity and security requirements, and duration requirements for limiting exposure to interest rate risk.

International Economic Department. International Economic Department is responsible for general implementation of the investment policy through its specific units. The Director of International Economic Department monitors and manages the general structure of the asset portfolio, including asset composition, instruments, counterparties, maturity, as well as limits over the foreign currency reserve.

Internal Audit. The Bank's internal audit mission is to examine and evaluate the adequacy and effectiveness of the risk management system in its activities toward the accomplishment of the Bank's objectives, and fulfilment of policies and plans. Internal Audit Department ("IAD") charter determines its duties to examine the effectiveness of all levels of risk management in planning, organization, coordination and controlling the implementation of the policies and procedures adopted by the Bank, examining the compliance of operations and systems with laws, regulations as well as integrity, and security of financial and operational information. IAD carries out general risk assessment and further assessment focused on specific issues. General risk assessment is undertaken during the development of long-term and annual audit plans to ensure proper allocation of audit resources according to the degree of risk, while assessment focuses on particular issues at the specific level. IAD of the Bank has carried out activities in accordance with audit program and annual audit plan for 2012. Priorities for audits are determined by applying criteria which reflect potential and actual degree of risk to which each area of operation is exposed. For these purposes certain criteria are developed and appropriate weights are assigned to each type of criteria in relation to the activities audited. The weighted scores are totalled for each operational area and the degree of risk is classified as high, medium and low accordingly.

The evaluation of internal control system is also a very important aspect of internal audit work. The evaluation is aimed at ensuring the existence of adequate procedures and competent performance, as well as reliability of financial reporting system and compliance of all activities with applicable laws and regulations. IAD reports about findings and its recommendations administratively to the Governor, and functionally to the Supervisory Board. After each assessment, IAD discusses the results with management of the Bank, as well as undertaking follow-up reviews on the actions taken by management.

Credit Risk. Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Exposure to credit risk results from the Bank's lending and other transactions with counterparties, which give rise to financial assets. Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset. Limits on the level of credit risk by type of investment and counterparty are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The credit quality of the Bank's financial assets is primarily monitored based on the assigned ratings of international rating agencies, including country ratings if related foreign institution (such as central bank) is not individually rated. The Bank has fully suspended trading with certain parties without considering their ratings due to instability of international financial markets, which could lead to a system risk, if counterparty risk is not properly addressed.

In order to minimize credit risk, foreign exchange reserves are invested in securities issued by the AAA- rated Governments (or central banks) and international institutions. The credit risk on foreign currency deposits and money market instruments is limited by transacting with counterparties rated “A-” or above by internationally recognized rating agencies. The minimum rating is taken when a counterparty has ratings from more than one rating agency.

27 Financial Risk Management (Continued)

For domestic monetary policy operations, the Bank actively uses collateral to reduce its exposure to credit risk. According to the Regulation on Central Bank Refinancing, the main types of collateral used when financial instruments are issued to Mongolian commercial banks are as follows:

1. Central Bank bills;
2. Short-term government securities;
3. Government securities issued by the OECD members and accepted by the Bank;
4. Liquid securities of AAA rating issued by recognized foreign financial institution;
5. Promissory notes of financial institutions accepted by the Bank;
6. Time deposits at the Bank and foreign banks.

The eligible borrowing banks have to meet all prudential ratios set by the Bank. If the borrowing local bank breaches one of the prudential ratios, the Bank terminates the refinancing operation in order to limit total exposure to the borrowing bank.

Given that the biggest Mongolian commercial banks are rated by international rating agencies, financial assets due from local banks are also monitored on this basis. In case of unrated Mongolian commercial bank, the Bank considers financial conditions of related commercial bank based on the recent financial information, compliance with prudential ratios, and other information available by the Banking Supervision Department and other relevant departments for assessing credit quality of related assets. At present, the Bank does not use internal credit rating systems for assessing credit quality of financial assets due from commercial banks.

In addition, all counterparties have credit limits, which are set taking into consideration their ratings, capital, and other factors. The credit limits are set quarterly by the Investment Committee and compliance with the limits is monitored daily. In order to monitor its credit risk, the Bank also monitors the aging of its financial assets, particularly loans to commercial banks and other financial assets (refer to Notes 12 and 14). Any significant exposures against counterparties with deteriorating creditworthiness are reported to and reviewed by the Board of Directors, which also makes decisions on necessary actions.

As disclosed in Note 26, the Bank enters into certain credit related commitments, which are deemed to be of importance for the country (e.g. exporting goods and/or services) and/or when such arrangements are requested by the Government of Mongolia or its institutions. The primary purpose of these instruments is to ensure that funds are available to the Government or other relevant parties in these arrangements as required. Issued letters of credit represent irrevocable assurances that the Bank will make payments in the event that the party requesting this arrangement cannot meet its obligations to third parties and expose the Bank to similar risks to loans, which are mitigated by the same control processes and policies. Commitments to extend credit represent unused portions of authorisations to extend credit and relate to the arrangement with the People's Bank of China (Note 26). Based on analysis performed, the Bank's management believes that counterparty risk in case of this arrangement is low.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of monetary financial assets in the statement of financial position. The credit risk is mitigated by collateral as disclosed in Notes 9 and 12. For letters of credit and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment (Note 26).

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. When assessing market risk, as well as liquidity risk, management's main considerations also include intervention needs, structure of the import and current liabilities to foreign parties. The Bank manages and monitors this risk element using sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk. The Bank is not significantly exposed to other price risk.

27 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is managed through diversification of foreign currency portfolio and determination of the below parameters:

- foreign currency reserve management.
- maximum share of the managed currency in related assets denominated in foreign currencies for foreign currency reserve and short-term and long-term investment portfolio.

Limits over the foreign currency reserve are approved by Governor on quarterly basis, based on the proposal of Investment Committee. The proposed limits are based on the “Annual Investment Policy”, which defines acceptable levels of risk.

Positions are monitored on a daily basis to ensure positions are maintained within established limits. A method of value-at-risk (VaR) is applied to assess the currency risk. RMU assesses the 10-day VaR at 99% confidence level on daily basis and reports to management. Further, sensitivity analysis is used.

The following table indicates the currencies and SDRs to which the Bank had significant exposure at 31 December 2012 and 31 December 2011 on its monetary assets and liabilities.

In millions of Mongolian Togrog	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
2012				
US Dollars	4,929,204	(2,699,439)	(229,440)	2,000,325
Mongolian Togrog	448,020	(3,143,102)	229,041	(2,466,041)
CNY	44,301	(475,012)	-	(430,711)
Euros	295,929	(69,909)	-	226,020
SDRs	94,647	(111,549)	-	(16,902)
Other	114,224	(4,936)	-	109,288
Total	**5,926,325**	**(6,503,947)**	**(399)**	**(578,021)**
2011				
US Dollars	2,504,922	(556,915)	70,646	2,018,653
Mongolian Togrog	493,691	(3,116,908)	(68,644)	(2,691,861)
Euros	507,486	(104,728)	-	402,758
SDRs	97,153	(111,530)	-	(14,377)
Other	72,559	(7,629)	-	64,930
Total	**3,675,811**	**(3,897,710)**	**2,002**	**(219,897)**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates of foreign currencies and SDRs applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or loss while a positive amount reflects a net potential increase.

27 Financial Risk Management (Continued)

In millions of Mongolian Togrog	**At 31 December 2012 Impact on profit or loss and equity**	**At 31 December 2011 Impact on profit or loss and equity**
US Dollars strengthening by 5% (2011: 20%)	100,016	403,731
US Dollars weakening by 5% (2011: 20%)	(100,016)	(403,731)
CNY strengthening by 5% (2011: 20%)	(21,536)	-
CNY weakening by 5% (2011: 20%)	21,536	-
Euro strengthening by 5% (2011: 20%)	11,301	80,552
Euro weakening by 5% (2011: 20%)	(11,301)	(80,552)
SDRs strengthening by 5% (2011: 20%)	(845)	(2,875)
SDRs weakening by 5% (2011: 20%)	845	2,875
Other strengthening by 5% (2011: 20%)	5,464	12,986
Other weakening by 5% (2011: 20%)	(5,464)	(12,986)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank and monetary balances denominated in SDRs.

Interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The main objective when managing the interest rate risk is to maintain stable return on investments while not exceeding the risk levels that can be undertaken per investment policies.

Assets and liabilities of the Bank are predominantly fixed rate or non-interest bearing, which significantly reduces exposure to interest rate risk. Further, in strategic benchmark development process the Bank sets duration requirements for its foreign reserve portfolio in order to limit exposure to interest rate risk. The duration requirement is monitored on a daily basis. The duration of the investment is assessed through the application of horizon analysis. The Bank uses a one-year investment horizon, defined negative return as minimum return and up to 5% of acceptable variance of negative return for calculation of prudential duration.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In millions of Mongolian Togrog	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total interest bearing**	**Non-interest bearing**	**Total**
31 December 2012							
Total financial assets	4,920,610	50,000	238,438	301,442	**5,510,490**	419,844	**5,930,334**
Total financial liabilities	(2,616,574)	(694,904)	-	(115,080)	**(3,426,558)**	(3,078,622)	**(6,505,180)**
Net interest sensitivity gap at 31 December 2012	2,304,036	(644,904)	238,438	186,362	**2,083,932**	(2,658,778)	**(574,846)**
31 December 2011							
Total financial assets	1,119,330	2,043,754	1,114	266,387	**3,430,585**	250,572	**3,681,157**
Total financial liabilities	(582,302)	(259,826)	(36,953)	(27,511)	**(906,592)**	(2,991,118)	**(3,897,710)**
Net interest sensitivity gap at 31 December 2011	**537,028**	**1,783,928**	**(35,839)**	**238,876**	**2,523,993**	**(2,740,546)**	**(216,553)**

27 Financial Risk Management (Continued)

Interest is accrued at floating rates on the following assets and liabilities: SDR holdings (Note 7), SDR allocation, loan from HSBC and loan from People's Bank of China (Note 18). At 31 December 2012, if interest rates at reporting date had been 200 basis points lower with all other variables held constant, loss for the year would have been MNT 9,382 million lower, mainly as a result of lower interest expense on variable interest liabilities, primarily loan from People's Bank of China. If interest rates had been 200 basis points higher, with all other variables held constant, loss would have been MNT 9,382 million higher, mainly as a result of higher interest expense on variable interest liabilities.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2012, if interest rates had been 200 basis points lower with all other variables held constant, loss for the year would have been MNT 3,325 million lower, mainly as a result of lower interest expense on variable interest liabilities, primarily loan from People's Bank of China. If interest rates had been 200 basis points higher with all other variables held constant, loss for the year would have been MNT 3,325 million higher, mainly as a result of higher interest expense on variable interest liabilities.

Management believes that the Bank's exposure to interest rate risk was not significant in 2012, as assets and liabilities of the Bank were predominantly fixed rate or non-interest bearing, and the Bank had no material interest bearing assets or liabilities at variable rates. The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For quoted securities, the interest rates represent yields to maturity based on market quotations at the reporting date.

	2012					2011			
In % p.a.	MNT	USD	EURO	CNY	Other	MNT	USD	EURO	Other
Assets									
Due from foreign financial institutions	0.0%	0.20%	0.0%	0.0%	0.07%	0.0%	0.16%	0.33%	0.56%
Financial investments available-for-sale	-	1.18%	-	-	0.0%	-	0.28%	-	-
Reverse repurchase agreements	-	0.17%	-	-	-	-	0.12%	-	-
Government securities	8.97%	-	-	-	-	8.97%	-	-	-
Loans to local banks	6.31%	3.98%	1.25%	-	-	16.20%	5.50%	1.25%	-
Liabilities									
Central bank bills	15.00%	-	-	-	-	12.25%	-	-	-
Liabilities due to government organizations	0.0%	4.79%	0.75%	-	1.28%	0.0%	3.00%	0.75%	1.28%
Liabilities due to foreign parties	0.0%	0.0%	0.0%	6.04%	1.35%	0.0%	0.0%	0.0%	1.35%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

27 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2012 is set out below:

In millions of Mongolian Togrog	**Mongolia**	**OECD**	**IMF**	**Non-OECD**	**Total**
Assets					
Cash in hand	28,317	-	-	-	28,317
Due from foreign financial institutions	-	3,133,983	94,647	44,349	3,272,979
Financial investments available-for-sale	490	139,469	-	2,594	142,553
Reverse repurchase agreements	-	2,031,631	-	-	2,031,631
Government securities	159,210	-	-	-	159,210
Loans to local banks	294,810	-	-	-	294,810
Other financial assets	834	-	-	-	834
Total financial assets	**483,661**	**5,305,083**	**94,647**	**46,943**	**5,930,334**
Liabilities					
Cash in circulation	828,450	-	-	-	828,450
Central bank bills	752,151	-	-	-	752,151
Liabilities due to government organizations	2,959,686	-	-	-	2,959,686
Deposits from local banks	1,371,671	-	-	-	1,371,671
Liabilities due to foreign parties	-	720	104,906	470,788	576,414
Other financial liabilities	16,808	-	-	-	16,808
Total financial liabilities	**5,928,766**	**720**	**104,906**	**470,788**	**6,505,180**
Net balance sheet position as 31 December 2012	**(5,445,105)**	**5,304,363**	**(10,259)**	**(423,845)**	**(574,846)**
Credit related commitments (Note 26)	**61,856**	**-**	**-**	**89,356**	**151,212**

27 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

In millions of Mongolian Togrog	**Mongolia**	**OECD**	**IMF**	**Non-OECD**	**Total**
Assets					
Cash in hand	44,505	-	-	-	44,505
Due from foreign financial institutions	-	2,147,427	97,153	-	2,244,580
Financial investments available-for-sale	490	209,456	-	2,594	212,540
Reverse repurchase agreements	-	678,496	-	-	678,496
Government securities	155,276	-	-	-	155,276
Loans to local banks	340,581	-	-	-	340,581
Other financial assets	5,179	-	-	-	5,179
Total financial assets	**546,031**	**3,035,379**	**97,153**	**2,594**	**3,681,157**
Liabilities					
Cash in circulation	713,351	-	-	-	713,351
Central bank bills	879,113	-	-	-	879,113
Liabilities due to government organizations	1,170,890	-	-	-	1,170,890
Deposits from local banks	1,015,230	-	-	-	1,015,230
Liabilities due to foreign parties	-	937	104,475	-	105,412
Other financial liabilities	13,714	-	-	-	13,714
Total financial liabilities	**3,792,298**	**937**	**104,475**	**-**	**3,897,710**
Net balance sheet position as 31 December 2011	**(3,246,267)**	**3,034,442**	**(7,322)**	**2,594**	**(216,553)**
Credit related commitments (Note 26)	**73,688**	**-**	**-**	**554,075**	**627,763**

Other risk concentrations. Management monitors concentrations of credit risk through obtaining reports listing exposures to borrowers per counterparty limits, which are disclosed above. The Bank did not have any such significant risk concentrations as of 31 December 2012 and 31 December 2011.

Liquidity risk. Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk of foreign currency is the main area of risk faced by the Bank. With respect to the classical investment triad (safety–liquidity-return), the investment policy of the Bank is maximizing returns which ought to be considered only if all the liquidity and safety requirements are met. In circumstances of high import dependence, constant supply requirement of Government external debt servicing, volatility of demand and supply of foreign exchange in the domestic market, liquidity is the most important concern of foreign exchange reserve management. In order to manage liquidity risk, the Bank divided its foreign reserve portfolio into two sub-portfolios:

- The Short-term Investment Portfolio (including the cash management or liquidity portfolio): This portfolio is used for purposes of debt servicing and smooth functioning of the foreign exchange market. It consists of cash, overnights and demand deposits. It is also invested in time deposits, highly liquid money market instruments (commercial papers) and securities ranging from a week to twelve month maturity and commodities (monetary gold).
- The Long-term Investment Portfolio: This portfolio is invested in medium to long-term high liquid instruments including government bonds and securities.

  The Investment Committee proposes the limits for foreign exchange portfolio. In order to minimize the liquidity risk, the following asset structure is followed in accordance with the regulation on State Foreign Exchange Reserve Management:
- Not less than below limit defined as certain percentage of total assets with short-term maturity (i.e. maturity up to 1 year) shall be placed as current accounts and cash in foreign currency;

27 Financial Risk Management (Continued)

- Not less than below limit defined as percentage of total assets with short-term maturity (i.e. maturity up to 1 year) shall be placed as deposits with maturity up to 6 months.

Stop-loss limit of foreign trading is USD 400,000, while the limit of trading unit is USD 100,000 and the limit of one-off trading is USD 50,000, which also reduces liquidity risk.

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received i.e. payments in respect of gross settled forwards and swaps are accompanied by related cash inflows.

Liquidity requirements to support calls under issued letters of credit are considerably less than the amount of the commitment disclosed in the maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the maturity table below does not necessarily represent future cash requirements, since these commitments may expire or terminate without being funded.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In millions of Mongolian Togrog	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Cash in circulation	828,450	-	-	-	**828,450**
Central bank bills	524,500	237,500	-		**762,000**
Liabilities due to government organizations	2,939,266	64	77	23,804	**2,963,211**
Deposits from local banks	1,371,671	-	-	-	**1,371,671**
Liabilities due to foreign parties	105,237	470,788	-	389	**576,414**
Other financial liabilities	15,575	-	-	-	**15,575**
Gross settled swaps and forwards:					
- inflows	(188,638)	(115,577)	-	-	**(304,215)**
- outflows	188,203	116,411	-	-	**304,614**
Credit related commitments	151,212	-	-	-	**151,212**
Total potential future payments for financial obligations	**5,935,476**	**709,186**	**77**	**24,193**	**6,668,932**

27 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Mongolian Togrog	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Liabilities					
Cash in circulation	713,351	-	-	-	**713,351**
Central bank bills	583,950	267,500	40,000	-	**891,450**
Liabilities due to government organizations	1,143,379	160	604	28,289	**1,172,432**
Deposits from local banks	1,015,230	-	-	-	**1,015,230**
Liabilities due to foreign parties	104,847	-	-	565	**105,412**
Other financial liabilities	13,714	-	-	-	**13,714**
Gross settled swaps and forwards:					
- inflows	(70,646)	-	-	-	**(70,646)**
- outflows	68,644	-	-	-	**68,644**
Credit related commitments	627,763	-	-	-	**627,763**
Total potential future payments for financial obligations	**4,200,232**	**267,660**	**40,604**	**28,854**	**4,537,350**

A significant portion of deposits from local banks and liabilities due to government organizations represent core deposits, i.e. stable sources of financing the Bank's operations. Similarly, cash in circulation also represents a stable source of financing, although the Bank does not have unconditional contractual rights to delay payment. Refer to maturity analysis based on expected maturity below.

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities of carrying amounts of financial assets and liabilities and the resulting expected liquidity gap. The table below shows the maturity analysis of financial assets and liabilities based on expected maturity.

Expected maturity of financial liabilities significantly differs from contractual maturity, due to a large amount of core deposits (consisting primarily from deposits from government organizations and local banks) and cash in circulation, as mentioned above. Financial assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

27 Financial Risk Management (Continued)

The maturity analysis at 31 December 2012 is as follows:

In millions of Mongolian Togrog	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash in hand	28,317	-	-	-	28,317
Due from foreign financial institutions	3,179,637	-	-	93,342	3,272,979
Financial investments available-for-sale	-	-	-	142,553	142,553
Reverse repurchase agreements	2,031,631	-	-	-	2,031,631
Government securities	-	50,000	50,000	59,210	159,210
Loans to local banks	98,409	-	188,438	7,963	294,810
Other financial assets	435	399	-	-	834
Total financial assets	**5,338,429**	**50,399**	**238,438**	**303,068**	**5,930,334**
Liabilities					
Cash in circulation	-	-	-	828,450	828,450
Central bank bills	523,754	228,397	-	-	752,151
Liabilities due to government organizations	1,915,611	-	-	1,044,075	2,959,686
Deposits from local banks	780,935	-	-	590,736	1,371,671
Liabilities due to foreign parties	210	471,177	-	105,027	576,414
Other financial liabilities	15,575	1,233	-	-	16,808
Total financial liabilities	**3,236,085**	**700,807**	**-**	**2,568,288**	**6,505,180**
Net liquidity gap	**2,102,344**	**(650,408)**	**238,438**	**(2,265,220)**	**(574,846)**
Cumulative liquidity gap at 31 December 2012	**2,102,344**	**1,451,936**	**1,690,374**	**(574,846)**	**-**

27 Financial Risk Management (Continued)

The maturity analysis at 31 December 2011 is as follows:

In millions of Mongolian Togrog	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash in hand	44,505	-	-	-	44,505
Due from foreign financial institutions	103,734	2,043,693	-	97,153	2,244,580
Financial investments available-for-sale	209,456	-	-	3,084	212,540
Reverse repurchase agreements	678,496	-	-	-	678,496
Government securities	-	-	-	155,276	155,276
Loans to local banks	228,294	61	1,114	111,112	340,581
Other financial assets	5,179	-	-	-	5,179
Total financial assets	**1,269,664**	**2,043,754**	**1,114**	**366,625**	**3,681,157**
Liabilities					
Cash in circulation	-	-	-	713,351	713,351
Central bank bills	582,334	259,826	36,953	-	879,113
Liabilities due to government organizations	291,958	160	604	878,168	1,170,890
Deposits from local banks	304,506	65,454	-	645,270	1,015,230
Liabilities due to foreign parties	-	-	-	105,412	105,412
Other financial liabilities	13,714	-	-	-	13,714
Total financial liabilities	**1,192,512**	**325,440**	**37,557**	**2,342,201**	**3,897,710**
Net liquidity gap	**77,152**	**1,718,314**	**(36,443)**	**(1,975,576)**	**(216,553)**
Cumulative liquidity gap at 31 December 2011	**77,152**	**1,795,466**	**1,759,023**	**(216,553)**	-

28 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the BOM. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

		2012		2011	
In millions of Mongolian Togrog	**Notes**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of					
- USD receivable on settlement (+)			37,219	70,646	-
- USD payable on settlement (-)		(248,933)	(17,726)	-	-
- MNT receivable on settlement (+)		249,767	17,229	-	-
- MNT payable on settlement (-)			(37,955)	(68,644)	-
Net fair value of foreign exchange forwards and swaps	**14,19**	**834**	**(1,233)**	**2,002**	**-**

Foreign exchange derivative financial instruments entered into by BOM are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value of financial instruments carried at amortised cost, which have short term maturities approximates their carrying value.

29 Fair Value of Financial Instruments (Continued)

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

	2012		2011	
In millions of Mongolian Togrog	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash in hand	28,317	28,317	44,505	44,505
Due from foreign financial institutions				
- Short term deposits in foreign currency	2,789,889	2,789,889	2,059,287	2,059,287
- Demand deposits	387,748	387,748	87,290	87,290
- Restricted cash	604	604	590	590
- Special drawing rights holdings	94,647	94,647	97,153	97,153
- World Bank subscription	87	87	256	256
- Other subscriptions	4	4	4	4
Reverse repurchase agreements	2,031,631	2,031,631	678,496	678,496
Government securities	159,210	155,480	155,276	151,907
Loans to local banks				
- Loans issued under Price Stabilization Program	188,360	188,360	-	-
- Reverse sale and repurchase agreements	92,322	92,322	223,244	223,244
- Loans related to Anod Bank	-	-	102,000	102,000
- Loans in local currency	8,070	8,070	10,104	10,104
- Loans in foreign currency	6,058	6,058	5,233	5,233
Other financial assets	-	-	3,177	3,177
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**5,786,947**	**5,783,217**	**3,466,615**	**3,463,246**

As disclosed in Note 12, management cannot reliably estimate amount and timing of cash flows related to loans to Anod Bank. Similarly, fair value of these loans cannot be estimated with sufficient reliability due to uncertain timing of cash flows from the loans and uncertainties affecting the financial effect of collateral. For more details refer to Note 12. For the purposes of this disclosure, management has decided to present fair value in the amount of carrying amount of these loans.

29 Fair Value of Financial Instruments (Continued)

In millions of Mongolian Togrog	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Cash in circulation	828,450	828,450	713,351	713,351
Central bank bills	752,151	752,151	879,113	879,113
Liabilities due to government organizations				
- Liabilities to the Ministry of Finance related to borrowings	20,433	20,433	20,796	20,796
- Current accounts of Ministry of Finance	2,939,253	2,939,253	1,150,094	1,150,094
Deposits from local banks				
- Correspondent accounts in national currency	842,958	842,958	645,501	645,501
- Correspondent accounts in foreign currency	528,713	528,713	369,729	369,729
Liabilities due to foreign parties				
- Loan from HSBC, London	389	389	565	565
- *Loan from People Bank of China*	470,788	470,788	-	-
- International Monetary Fund ("IMF"):	104,906	104,906	104,475	104,475
- Subscription to World Bank	87	87	256	256
- Subscription to IDA	34	34	34	34
- Current account of WorldBank	210	210	77	77
- Current account of ADB	-	-	5	5
Other financial liabilities				
- Initial capital contributions for local banks	2,000	2,000	3,000	3,000
- Deposits by non-banking entities	7,030	7,030	4,061	4,061
- Other payables	6,545	6,545	6,653	6,653
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**6,503,947**	**6,503,947**	**3,897,710**	**3,897,710**

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In %	2012	2011
FINANCIAL ASSETS		
Due from foreign financial institutions	0.19% to 0.30% p.a.	0.01% to 0.6% p.a.
Financial investments available-for-sale	0.13% to 4.1% p.a.	0.28% to 0.38% p.a.
Reverse repurchase agreements	0.17% p.a.	0.12% p.a.
Government securities	12.25% p.a.	12.25% p.a.
Loans to local banks	12.5% to 22.25% p.a.	1.25% to 5.5% p.a.
FINANCIAL LIABILITIES		
Central bank bills	13% to 17% p.a.	10.41% to 16.25% p.a.
Liabilities due to government organizations	0.75% to 3% p.a.	0.75% to 3% p.a.
Liabilities due to foreign parties	1.35% to 6.04% p.a.	1.35% p.a.

29 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

For financial instruments carried at fair value, the level in the hierarchy into which the fair values are categorised are as follows:

	2012		2011	
In millions of Mongolian Togrog	**Quoted in an active market**	**Valuation technique with inputs observable in markets**	**Quoted in an active market**	**Valuation technique with inputs observable in markets**
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Financial investments available-for-sale				
- RAMP Investment Account Assets	139,469	-	-	-
- Bonds of Bank for International Settlements	-	-	209,456	-
Other financial assets:				
- Derivative financial instruments	-	834	-	2,002
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**139,469**	**834**	**209,456**	**2,002**

	2012	2011
In millions of Mongolian Togrog	**Valuation technique with inputs observable in markets**	**Valuation technique with inputs observable in markets**
FINANCIAL LIABILITIES		
Other financial liabilities		
- Derivative financial Instruments	1,233	-
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**1,233**	**-**

30 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2012:

In millions of Mongolian Togrog	**Loans and receivables**	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash in hand	28,317	-	-	28,317
Due from foreign financial institutions	3,272,979	-	-	3,272,979
Financial investments available-for-sale	-	142,553	-	142,553
Reverse repurchase agreements	2,031,631	-	-	2,031,631
Government securities	159,210	-	-	159,210
Loans to local banks	294,810	-	-	294,810
Other financial assets	-	-	834	834
TOTAL FINANCIAL ASSETS	**5,786,947**	**142,553**	**834**	**5,930,334**

The following table provides a reconciliation of financial assets with the measurement categories at 31 December 2011.

In millions of Mongolian Togrog	**Loans and receivables**	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash in hand	44,505	-	-	44,505
Due from foreign financial institutions	2,244,580	-	-	2,244,580
Financial investments available-for-sale	-	212,540	-	212,540
Reverse repurchase agreements	678,496	-	-	678,496
Government securities	155,276	-	-	155,276
Loans to local banks	340,581	-	-	340,581
Other financial assets	3,177	-	2,002	5,179
TOTAL FINANCIAL ASSETS	**3,466,615**	**212,540**	**2,002**	**3,681,157**

As of 31 December 2012 and 31 December 2011 all of the Bank's financial liabilities were carried at amortised cost except for derivatives, which belong to the fair value through profit or loss measurement category.

31 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As of 31 December 2012 and 31 December 2011, the Bank has disclosed balances and transactions with the following related parties: Government(which includes organizations, such as Ministry of Finance, which management is appointed by the central government) and a local commercial bank State Bank, which is fully owned and management appointed by the Parliament. As disclosed in Notes 3 and 12, the loan to Anod Bank was provided by the Bank of Mongolia on behalf of the Government. Therefore this transaction is considered as related party transaction in accordance with IFRS requirements.

The Bank utilised the amendment in IAS 24 on ‘partial exemption from the disclosure requirement for government-related entities’. Thus, individually immaterial transactions with government-related entities are not disclosed in these financial statements.

At 31 December 2012, the outstanding balances with related parties were as follows:

In millions of Mongolian Togrog	**Government**	**State Bank**
Government securities (contractual interest rate: 0.10% -12.25 % p.a.)	159,210	-
Central bank bills (contractual interest rate: 13 % -17% p.a.)	-	36,039
Deposits from local banks	-	52,530
Liabilities due to government organizations (contractual interest rate: 0.75% - 4.79% p.a.)	2,959,686	-

At 31 December 2011, the outstanding balances with related parties were as follows:

In millions of Mongolian Togrog	**Government**	**State Bank**
Government securities (contractual interest rate: 0.10% -12.25 % p.a.)	155,276	-
Loans to local banks (contractual interest rate: 9.75% p.a.)	102,000	-
Other assets	3,177	-
Central bank bills (contractual interest rate:12.25 % -16.24% p.a.)	-	51,173
Deposits from local banks	-	22,489
Liabilities due to government organizations (contractual interest rate: 0.75% - 1.25% p.a.)	1,170,890	-

The income and expense items with related parties for the year 2012 were as follows:

In millions of Mongolian Togrog	**Government**	**State Bank**
Interest income	33,032	-
Interest expense	9,778	1,166
Commission income	217	44

The income and expense items with related parties for the year 2011 were as follows:

In millions of Mongolian Togrog	**Government**	**State Bank**
Interest income	8,152	-
Interest expense	3,841	4,520
Commission income	-	241

31 Related Party Transactions (Continued)

Key management compensation is presented below:

In millions of Mongolian Togrog	**2012**	**2011**
Salaries and wages	427	276
Benefits in-kind	83	56
Social and pension fund contribution	56	46

32 Capital Management

The capital of the Bank comprises the residual value of the Bank's assets after deduction of all its liabilities. The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank considers total capital under management to be equity shown in the statement of financial position as disclosed in these financial statements.

No external capital requirements exist for the Bank as the central bank. The Law on Central Bank (Bank of Mongolia) defines the minimum amount of statutory capital (charter fund) and minimum portion of annual net income which needs to be allocated to the Bank's equity. As disclosed in Note 20, statutory capital of the Bank was MNT 5,000 million (31 December 2011: MNT 5,000 million), which represents the minimum amount defined by the Law. Also, the Law states that at least 40% of the Bank's net income has to be allocated to the Bank's equity, while the remaining amount (i.e. maximum 60% of net income) can be transferred to the State Budget account. Refer to Note 20. The Bank has realised net loss for the year ended 31 December 2010 that was covered from profit realised in 2011. Thus, no transfers were made to the State Budget during 2011 and 2012.

As disclosed in Note 3, the Bank has incurred loss of MNT 181,394 million in 2012 and had negative equity position of MNT 147,632 as at 31 December 2012. Article 38 of the Law stipulates that, if a deficit of the Central Bank arises, the Parliament shall make a decision whether the Government has to issue securities in order to cover the difference in the amount of the net deficit. Thus, the Government has no obligation to fund a net deficit of the Bank. However, issuance of government bonds for covering a deficit is a possibility which could be used by the Parliament, if covering a deficit is necessary to enable the Bank to perform its functions and continue its operations.

According to the Article 37 of the Law, the revaluation fund of the Bank should include the following:

- differences resulting from the foreign currency revaluation of assets and liabilities that are held in gold and in foreign currency due to fluctuations of foreign exchange rate of Mongolian Togrog;
- differences resulting from the revaluation of fixed assets (i.e. buildings).

According to the Article 37 of the Law, the differences resulting from the revaluation of foreign currency denominated assets and liabilities and gold should not be included in the determination of net distributable income of the Bank.

As a result, the Bank has established a foreign currency revaluation fund, revaluation reserve for precious metals, revaluation reserve for fixed assets, and revaluation reserve for financial investments available for sale, refer to Note 20.

33 Events after the End of the Reporting Period

Management is not aware of any events that occurred after the end of reporting period until 26 April 2013, which would have impact on these financial statements.

34 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.

STATISTICAL APPENDIX

6

Money supply

in millions of tugriks

End-of-period	Currency issued in circulation		Of which			Money (M1)		Of which
	amount	monthly changes %	Bank's vault	Currency outside banks amount	Currency outside banks monthly changes %	amount	monthly changes %	Current account in DC
2000 12	107,394.4	7.8	6,461.0	100,933.4	7.3	130,775.0	8.9	29,841.6
2001 12	119,205.8	5.7	10,045.1	109,160.7	8.2	156,155.3	6.9	46,994.6
2002 12	134,642.8	0.5	13,859.2	120,783.6	1.2	187,727.8	6.9	66,944.1
2003 12	152,826.6	1.1	21,329.9	131,496.7	-2.1	212,833.4	4.4	81,336.7
2004 12	168,521.1	1.7	25,008.4	143,512.7	3.9	221,327.6		77,814.9
2005 12	191,688.3	3.1	39,318.8	152,369.5	-0.4	269,124.4	6.3	116,754.9
2006 12	245,098.9	5.1	59,972.2	185,126.7	2.6	331,903.4	2.1	146,776.7
2007 12	364,074.4	12.5	80,749.1	283,325.3	8.2	590,471.6	13.6	307,146.3
2008 12	407,210.5	23.0	78,486.5	328,724.0	25.0	647,335.3	18.1	318,611.3
01	346,623.4	-14.9	68,287.5	278,335.9	-15.3	535,268.2	-17.3	256,932.2
02	397,300.9	14.6	91,636.8	305,664.2	9.8	549,886.6	2.7	244,222.4
03	338,280.4	-14.9	65,679.7	272,600.7	-10.8	511,386.8	-7.0	238,786.1
04	355,608.6	5.1	67,948.0	287,660.5	5.5	517,897.9	1.3	230,237.3
05	381,150.2	7.2	73,139.4	308,010.7	7.1	559,144.5	8.0	251,133.8
06	357,754.2	-6.1	73,955.4	283,798.8	-7.9	544,382.1	-2.6	260,583.2
07	350,644.3	-2.0	76,370.4	274,273.9	-3.4	521,831.8	-4.1	247,557.9
08	384,122.6	9.5	83,693.9	300,428.7	9.5	597,140.1	14.4	296,711.4
09	363,478.7	-5.4	81,061.0	282,417.7	-6.0	622,707.3	4.3	340,289.6
10	359,644.3	-1.1	85,077.9	274,566.4	-2.8	608,778.2	-2.2	334,211.8
11	363,915.6	1.2	85,322.6	278,593.0	1.5	600,593.4	-1.3	322,000.4
2009 12	371,831.9	2.2	86,838.0	284,993.9	2.3	651,247.0	8.4	366,253.2
01	350,828.3	-5.6	90,323.6	260,504.7	-8.6	629,701.0	-3.3	369,196.2
02	352,347.5	0.4	94,173.2	258,174.4	-0.9	627,897.5	-0.3	369,723.1
03	384,484.6	9.1	90,156.6	294,328.0	14.0	693,003.0	10.4	398,675.0
04	444,973.7	15.7	105,321.0	339,652.7	15.4	754,299.9	8.8	414,647.2
05	462,669.7	4.0	105,800.2	356,869.5	5.1	795,971.6	5.5	439,102.1
06	447,442.0	-3.3	98,536.3	348,905.7	-2.2	839,932.0	5.5	491,026.3
07	452,341.7	1.1	107,858.0	344,483.7	-1.3	826,662.4	-1.6	482,178.7
08	467,523.0	3.4	112,967.6	354,555.4	2.9	932,036.2	12.7	577,480.8
09	452,599.2	-3.2	108,822.1	343,777.0	-3.0	959,096.3	2.9	615,319.2
10	462,234.4	2.1	109,499.2	352,735.2	2.6	1,000,575.4	4.3	647,840.2
11	472,914.7	2.3	122,275.7	350,639.0	-0.6	995,746.4	-0.5	645,107.4
2010 12	519,692.4	9.9	131,489.8	388,202.7	10.7	1,157,617.9	16.3	769,415.2
01	565,690.3	8.9	170,922.1	394,768.2	1.7	1,131,534.4	-2.3	736,766.2
02	474,517.4	-16.1	138,076.2	336,441.2	-14.8	1,031,274.1	-8.9	694,833.0
03	531,134.7	11.9	144,313.1	386,821.6	15.0	1,181,542.7	14.6	794,721.1
04	628,571.6	18.3	153,753.1	474,818.5	22.7	1,338,482.3	13.3	863,663.8
05	624,752.2	-0.6	145,813.1	478,939.2	0.9	1,422,762.8	6.3	943,823.7
06	638,773.5	2.2	159,073.3	479,700.2	0.2	1,552,624.4	9.1	1,072,924.2
07	673,939.2	5.5	176,800.3	497,138.9	3.6	1,559,400.7	0.4	1,062,261.9
08	705,791.8	4.7	175,363.1	530,428.7	6.7	1,653,779.0	6.1	1,123,350.3
09	705,251.3	-0.1	180,113.0	525,138.2	-1.0	1,676,234.5	1.4	1,151,096.3
10	694,919.4	-1.5	187,343.0	507,576.4	-3.3	1,622,945.0	-3.2	1,115,368.6
11	678,907.7	-2.3	190,946.8	487,960.9	-3.9	1,552,663.2	-4.3	1,064,702.2
2011 12	713,351.1	5.1	195,857.0	517,494.2	6.1	1,741,075.7	12.1	1,223,581.5
01	656,998.9	-7.9	197,571.7	459,427.3	-11.2	1,565,796.9	-10.1	1,106,369.6
02	673,778.6	2.6	215,380.7	458,397.9	-0.2	1,500,327.8	-4.2	1,041,929.9
03	648,454.6	-3.8	200,372.5	448,082.1	-2.3	1,488,163.7	-0.8	1,040,081.6
04	708,876.4	9.3	210,050.7	498,825.7	11.3	1,595,806.6	7.2	1,096,980.9
05	782,922.5	10.4	187,269.2	595,653.3	19.4	1,741,358.4	9.1	1,145,705.1
06	891,527.8	13.9	228,596.4	662,931.5	11.3	1,797,175.2	3.2	1,134,243.8
07	801,409.3	-10.1	209,693.3	591,716.0	-10.7	1,660,362.3	-7.6	1,068,646.3
08	814,882.5	1.7	223,623.9	591,258.7	-0.1	1,681,086.8	1.2	1,089,828.2
09	745,629.7	-8.5	193,840.6	551,789.1	-6.7	1,658,017.5	-1.4	1,106,228.4
10	717,559.2	-3.8	216,271.6	501,287.6	-9.2	1,578,738.0	-4.8	1,077,450.3
11	722,110.5	0.6	220,890.6	501,220.0	0.0	1,557,134.1	-1.4	1,055,914.1
2012 12	828,450.3	14.7	224,565.9	603,884.4	20.5	1,835,413.2	17.9	1,231,528.8

Money supply

in millions of tugriks

End-of-period	Quasi money		Of which					Money (M2)	
	amount	monthly changes %	Time deposit in DC	Of which: Individuals	Of which: Corporations	Time deposits in FC	Current account in FC	amount	monthly changes %
2000 12	128,067.7	2.1	59,004.3	54,125.9	4,878.4	33,681.9	35,381.5	258,842.6	5.4
2001 12	174,908.9	3.0	87,590.4	79,321.6	8,268.7	47,017.1	40,301.5	331,064.3	4.8
2002 12	282,570.9	3.8	147,384.8	137,355.8	10,029.0	71,147.8	64,038.2	470,298.7	5.0
2003 12	490,499.0	15.8	240,280.1	228,133.5	12,146.6	123,253.9	126,965.0	703,332.4	12.1
2004 12	625,704.9	-0.2	300,976.4	287,894.4	13,082.0	216,434.0	108,294.5	847,032.4	0.9
2005 12	871,014.4	1.6	426,033.6	399,980.0	26053.6*	245,675.0	199,305.8	1140138.8*	2.7
2006 12	1,204,590.0	-4.5	692,483.4	647,774.2	44,709.3	302,921.7	209,184.9	1,536,493.3	-3.1
2007 12	1,810,778.1	5.6	1,113,729.7	1,014,880.8	98,848.9	375,987.2	321,061.2	2,401,249.7	7.4
2008 12	1,622,666.1	-4.2	898,692.5	829,539.3	69,153.1	440,199.5	283,774.2	2,270,001.4	1.3
01	1,665,977.4	2.7	887,761.4	812,383.6	75,377.9	493,644.4	284,571.5	2,201,245.6	-3.0
02	1,764,924.4	5.9	905,268.2	834,311.2	70,957.1	541,914.8	317,741.3	2,314,811.0	5.2
03	1,841,171.2	4.3	966,546.7	890,798.6	75,748.1	526,807.9	347,816.7	2,352,558.1	1.6
04	1,823,929.7	-0.9	998,035.9	912,356.6	85,679.3	491,566.5	334,327.3	2,341,827.5	-0.5
05	1,845,529.8	1.2	964,341.2	892,364.0	71,977.2	546,650.5	334,538.0	2,404,674.2	2.7
06	1,894,865.5	2.7	982,461.0	921,066.3	61,394.8	568,226.2	344,178.2	2,439,247.6	1.4
07	1,987,939.3	4.9	985,294.2	923,163.3	62,130.9	617,006.3	385,638.8	2,509,771.1	2.9
08	1,966,857.2	-1.1	1,027,885.7	962,780.0	65,105.7	580,364.3	358,607.2	2,563,997.3	2.2
09	2,030,707.4	3.2	1,072,211.9	1,004,645.2	67,566.7	580,759.1	377,736.4	2,653,414.7	3.5
10	2,062,242.6	1.6	1,133,696.4	1,050,083.3	83,613.1	561,906.8	366,639.5	2,671,020.9	0.7
11	2,114,668.4	2.5	1,147,503.6	1,053,386.3	94,117.3	577,949.4	389,215.4	2,715,261.8	1.7
2009 12	2,228,786.8	5.4	1,234,289.7	1,125,607.8	108,681.9	622,133.6	372,363.5	2,880,033.9	6.1
01	2,241,310.1	0.6	1,240,788.9	1,139,173.9	101,614.9	607,118.3	393,402.9	2,871,011.1	-0.3
02	2,353,955.3	5.0	1,366,290.1	1,264,587.7	101,702.3	592,424.6	395,240.6	2,981,852.7	3.9
03	2,281,480.3	-3.1	1,374,391.0	1,281,022.3	93,368.8	550,546.3	356,542.9	2,974,483.3	-0.2
04	2,408,657.9	5.6	1,363,602.5	1,264,842.2	98,760.2	609,930.8	435,124.7	3,162,957.8	6.3
05	2,458,107.6	2.1	1,411,151.3	1,314,434.6	96,716.7	601,651.7	445,304.6	3,254,079.2	2.9
06	2,683,675.2	9.2	1,467,080.2	1,376,782.3	90,297.9	602,923.0	613,672.0	3,523,607.2	8.3
07	2,716,472.8	1.2	1,528,049.7	1,427,431.8	100,617.9	626,028.2	562,394.9	3,543,135.2	0.6
08	2,725,373.0	0.3	1,553,856.7	1,444,402.0	109,454.7	610,734.0	560,782.3	3,657,409.2	3.2
09	2,892,619.1	6.1	1,610,067.7	1,500,538.0	109,529.7	664,484.0	618,067.3	3,851,715.3	5.3
10	2,872,484.9	-0.7	1,656,273.0	1,547,737.4	108,535.6	647,780.3	568,431.6	3,873,060.3	0.6
11	2,943,893.7	2.5	1,749,261.6	1,641,120.7	108,140.8	631,437.6	563,194.5	3,939,640.0	1.7
2010 12	3,522,363.5	19.6	2,001,596.0	1,835,395.4	166,200.6	754,620.1	766,147.4	4,679,981.4	18.8
01	3,673,919.9	4.3	2,236,593.2	1,947,921.4	288,671.8	829,272.3	608,054.4	4,805,454.3	2.7
02	3,836,157.5	4.4	2,311,625.7	2,016,739.1	294,886.6	842,059.1	682,472.6	4,867,431.6	1.3
03	3,773,586.1	-1.6	2,338,658.1	2,068,784.6	269,873.5	792,974.6	641,953.4	4,955,128.8	1.8
04	4,012,030.3	6.3	2,363,348.0	2,094,155.4	269,192.6	859,476.7	789,205.6	5,350,512.6	8.0
05	4,006,154.0	-0.1	2,434,478.5	2,166,378.3	268,100.1	849,213.7	722,461.9	5,428,916.9	1.5
06	4,219,933.5	5.3	2,555,476.5	2,282,435.6	273,040.9	850,500.2	813,956.8	5,772,557.8	6.3
07	4,360,991.7	3.3	2,641,049.8	2,350,471.9	290,577.9	866,835.6	853,106.3	5,920,392.4	2.6
08	4,249,456.1	-2.6	2,680,172.2	2,379,244.6	300,927.6	865,361.4	703,922.6	5,903,235.1	-0.3
09	4,377,634.3	3.0	2,778,679.9	2,440,373.9	338,306.0	893,335.5	705,619.0	6,053,868.9	2.6
10	4,455,359.6	1.8	2,843,670.9	2,497,040.3	346,630.6	901,189.0	710,499.8	6,078,304.6	0.4
11	4,560,531.7	2.4	2,809,589.6	2,460,719.4	348,870.2	1,004,914.2	746,027.8	6,113,194.9	0.6
2011 12	4,671,183.6	2.4	2,912,432.3	2,586,648.3	325,784.0	977,902.4	780,849.0	6,412,259.3	4.9
01	4,581,661.8	-1.9	2,859,121.7	2,614,113.3	245,008.4	1,026,832.4	695,707.7	6,147,458.7	-4.1
02	4,737,242.4	3.4	2,995,548.2	2,743,409.3	252,138.9	999,690.5	742,003.8	6,237,570.2	1.5
03	4,616,653.9	-2.5	2,980,692.6	2,729,181.8	251,510.8	765,641.0	870,320.3	6,104,817.6	-2.1
04	4,767,102.1	3.3	2,981,443.4	2,738,807.9	242,635.5	999,587.1	786,071.6	6,362,908.7	4.2
05	4,988,250.9	4.6	3,023,980.7	2,777,971.3	246,009.3	1,200,918.4	763,351.8	6,729,609.3	5.8
06	5,254,022.5	5.3	3,079,726.5	2,855,003.7	224,722.8	1,287,877.6	886,418.4	7,051,197.7	4.8
07	5,293,169.2	0.7	3,130,745.7	2,905,401.2	225,344.4	1,287,022.0	875,401.5	6,953,531.5	-1.4
08	5,316,061.1	0.4	3,081,023.8	2,854,473.4	226,550.4	1,334,530.0	900,507.2	6,997,147.9	0.6
09	5,454,158.5	2.6	3,082,286.2	2,844,351.5	237,934.7	1,496,225.8	875,646.5	7,112,176.0	1.6
10	5,553,857.1	1.8	3,174,975.0	2,870,656.2	304,318.8	1,487,330.6	891,551.6	7,132,595.1	0.3
11	5,476,076.7	-1.4	3,164,672.5	2,905,611.3	259,061.1	1,432,376.6	879,027.6	7,033,210.8	-1.4
2012 12	5,781,859.3	5.6	3,488,022.5	3,109,244.6	378,777.9	1,434,728.1	859,108.6	7,617,272.4	8.3

Depository Corporations Survey

Continued

End-of-period	Net foreign assets	Domestic credit (net)	Of which		
			Government	Of which:	
				General Government	Local Government
2000 12	201,696.9	84,831.1	17,171.2		
2001 12	220,165.7	129,259.5	-6,829.1		
2002 12	308,507.4	200,027.4	-32,439.3		
2003 12	256,341.5	514,615.2	96,687.3		
2004 12	311,005.2	647,305.1	40,506.5	45,022.0	-4,515.6
2005 12	570,198.7	769,004.[62]	-90,847.2	-87,822.4	-3,024.9
2006 12	1,131,772.5	745,404.8	-477,882.5	-470,640.1	-7,242.4
2007 12	1,352,046.2	1,329,532.9	-726,528.0	-719,606.1	-6,921.9
2008 12	683,478.2	2,061,976.5	-573,575.1	-566,471.1	-7,104.0
01	611,000.1	2,102,999.3	-568,995.0	-561,518.3	-7,476.6
02	659,613.7	2,195,108.3	-490,193.2	-482,686.7	-7,506.5
03	696,315.7	2,169,795.5	-501,931.0	-495,236.0	-6,695.0
04	732,889.8	2,094,759.5	-485,479.9	-480,307.8	-5,172.1
05	845,183.7	2,039,053.9	-495,853.0	-488,301.3	-7,551.8
06	944,242.6	1,977,766.1	-581,163.6	-574,386.6	-6,777.1
07	1,091,823.2	1,926,044.3	-654,734.3	-648,298.9	-6,435.4
08	1,174,831.5	1,888,563.5	-700,265.6	-689,294.3	-10,971.3
09	1,250,760.3	1,930,001.0	-700,933.7	-690,570.6	-10,363.0
10	1,493,330.9	1,734,009.7	-883,976.6	-875,409.6	-8,566.9
11	1,541,558.5	1,782,186.4	-849,844.7	-840,799.7	-9,045.0
2009 12	1,532,827.5	1,937,874.3	-717,126.1	-709,477.0	-7,649.1
01	1,549,683.2	1,989,667.8	-684,776.7	-676,642.2	-8,134.5
02	1,569,011.8	2,096,576.2	-619,174.9	-611,919.4	-7,255.5
03	1,441,851.9	2,139,661.1	-628,887.2	-623,329.0	-5,558.2
04	1,651,075.5	2,079,478.2	-685,392.9	-677,573.6	-7,819.4
05	1,644,686.8	2,184,974.2	-667,743.2	-660,415.8	-7,327.4
06	1,801,207.9	2,283,798.6	-598,830.8	-591,589.6	-7,241.2
07	1,801,553.6	2,302,072.3	-669,921.0	-660,553.5	-9,367.5
08	1,921,080.2	2,256,881.9	-765,162.7	-757,056.4	-8,106.3
09	2,099,024.3	2,298,844.8	-786,507.3	-778,518.8	-7,988.5
10	2,120,248.5	2,253,429.7	-836,860.8	-829,641.2	-7,219.6
11	2,151,707.9	2,216,315.7	-896,178.6	-887,616.9	-8,561.7
2010 12	2,739,285.7	2,429,981.1	-834,796.9	-828,917.2	-5,879.7
01	2,666,682.5	2,611,222.8	-829,042.3	-821,162.2	-7,880.1
02	2,610,140.3	2,637,578.4	-888,724.7	-880,054.7	-8,670.0
03	2,618,912.3	2,734,749.6	-996,082.0	-988,369.0	-7,712.9
04	2,920,282.0	2,951,367.3	-1,022,511.7	-1,008,053.3	-14,458.5
05	2,697,019.9	3,195,242.3	-1,051,576.6	-1,034,400.8	-17,175.9
06	2,949,693.7	3,380,151.7	-1,172,639.7	-1,161,741.9	-10,897.8
07	3,064,096.1	3,458,332.7	-1,223,066.5	-1,203,839.6	-19,226.9
08	2,885,662.8	3,585,761.8	-1,285,041.0	-1,267,576.9	-17,464.1
09	3,041,323.7	3,699,454.1	-1,359,623.3	-1,350,632.8	-8,990.5
10	3,059,841.8	3,699,329.9	-1,522,578.4	-1,514,016.6	-8,561.8
11	3,005,462.5	3,840,801.2	-1,597,937.7	-1,588,186.5	-9,751.2
2011 12	3,067,439.5	4,270,983.8	-1,370,249.9	-1,362,960.6	-7,289.3
01	2,882,446.5	4,187,918.7	-1,459,709.5	-1,446,271.6	-13,437.9
02	2,851,992.2	4,264,746.3	-1,441,488.0	-1,416,663.1	-24,824.9
03	3,354,801.4	4,403,777.8	-1,377,728.3	-1,347,112.8	-30,615.4
04	3,444,431.7	4,550,257.9	-1,385,724.8	-1,355,422.0	-30,302.8
05	3,512,764.8	4,808,497.9	-1,312,702.2	-1,279,327.6	-33,374.6
06	3,448,389.3	5,287,742.3	-1,030,442.9	-1,018,306.4	-12,136.5
07	3,218,826.0	5,376,276.0	-1,052,243.5	-1,027,807.9	-24,435.6
08	3,102,716.0	5,627,434.6	-1,047,636.4	-1,029,299.7	-18,336.7
09	2,866,553.8	5,863,181.6	-1,004,152.4	-994,354.1	-9,798.4
10	2,575,164.5	5,848,798.4	-1,006,617.6	-995,441.7	-11,175.9
11	2,398,308.1	5,973,956.0	-893,825.8	-882,502.0	-11,323.7
2012 12	4,404,668.6	3,950,731.9	-3,039,814.5	-3,032,884.1	-6,930.3

Depository Corporations Survey

Continued

End-of-period	Other financial corporations	Public corporations	Private corporations	Individuals	Other	Unclassified loans
2000 12		6,281.5	45,482.9			15,895.6
2001 12		10,402.0	114,670.4			11,016.2
2002 12		12,184.9	203,567.2			16,714.5
2003 12		16,203.6	365,024.4			36,700.0
2004 12	455.1	13,125.7	365,057.9	210,931.1	17,228.9	
2005 12	498.8	34,169.2	489,064.7	321,606.8	14,512.4	
2006 12	1,597.1	36,731.6	659,019.3	507,570.0	18,369.3	
2007 12	2,828.5	27,331.8	1,166,149.5	838,778.5	20,972.4	
2008 12	3,412.1	34,794.6	1,570,398.9	1,013,694.2	13,251.7	
01	3,934.3	26,411.5	1,631,658.9	995,905.1	14,084.4	
02	3,278.4	25,436.3	1,653,170.0	989,544.2	13,872.6	
03	4,039.9	26,158.4	1,672,342.0	963,525.9	5,660.2	
04	4,078.1	22,441.4	1,617,792.1	930,567.3	5,360.5	
05	4,385.7	21,635.9	1,607,257.3	894,662.2	6,965.9	
06	3,767.8	20,199.9	1,653,214.5	875,248.8	6,498.8	
07	4,021.2	27,764.4	1,662,311.1	880,152.4	6,529.6	
08	5,155.8	26,099.5	1,639,487.7	911,531.9	6,554.1	
09	4,274.1	24,402.5	1,663,783.5	924,277.4	14,197.1	
10	4,310.8	23,089.8	1,652,200.0	928,245.8	10,139.9	
11	4,845.3	21,492.9	1,693,188.3	901,729.8	10,774.9	
2009 12	4,711.2	20,429.4	1,716,253.8	904,892.3	8,713.7	
01	3,827.1	20,422.8	1,720,862.3	920,916.9	8,415.5	
02	4,942.8	19,615.3	1,724,255.4	953,654.9	13,282.6	
03	12,013.7	16,948.8	1,760,220.7	964,035.3	15,329.8	
04	11,883.5	16,589.3	1,754,070.2	972,219.7	10,108.4	
05	10,470.7	15,245.7	1,815,477.0	1,001,587.6	9,936.5	
06	11,354.6	15,592.9	1,806,502.8	1,038,929.1	10,250.0	
07	10,436.2	32,651.1	1,844,147.8	1,075,174.1	9,584.2	
08	11,083.2	34,614.5	1,789,347.8	1,177,478.7	9,520.5	
09	11,745.6	37,686.6	1,808,074.9	1,218,394.9	9,450.1	
10	11,778.3	38,336.0	1,797,039.9	1,233,809.4	9,326.8	
11	12,458.1	36,873.6	1,783,352.2	1,270,186.9	9,623.5	
2010 12	14,067.6	17,073.9	1,854,774.6	1,369,232.5	9,629.5	
01	13,711.5	16,598.0	1,909,018.9	1,491,117.4	9,819.4	
02	13,252.8	15,756.6	1,999,058.5	1,488,750.3	9,484.9	
03	14,479.0	13,029.5	2,099,485.9	1,596,083.2	7,753.9	
04	13,580.2	16,163.3	2,226,969.0	1,709,263.3	7,903.3	
05	15,444.4	15,421.2	2,393,198.6	1,815,285.5	7,469.3	
06	14,951.3	16,160.3	2,568,669.9	1,944,813.6	8,196.1	
07	13,720.4	23,953.4	2,637,482.9	1,998,308.4	7,934.2	
08	15,631.8	26,441.7	2,685,825.7	2,134,699.7	8,203.7	
09	18,284.0	27,143.3	2,770,747.4	2,234,430.6	8,472.1	
10	16,503.3	26,225.8	2,861,279.8	2,309,733.5	8,165.9	
11	17,704.3	41,716.2	2,969,558.6	2,401,950.0	7,809.8	
2011 12	17,469.1	100,646.0	3,064,543.2	2,452,685.0	5,890.4	
01	13,745.9	58,975.0	3,095,504.6	2,472,319.2	7,083.7	
02	15,165.6	51,022.3	3,116,170.9	2,516,673.6	7,201.9	
03	16,445.1	50,675.2	3,154,928.2	2,552,540.0	6,917.5	
04	15,218.4	58,984.7	3,246,970.0	2,606,016.8	8,792.8	
05	16,220.6	63,851.6	3,328,245.3	2,704,399.3	8,483.4	
06	11,774.3	64,108.9	3,451,365.5	2,783,070.3	7,866.2	
07	11,883.1	66,356.2	3,541,896.9	2,799,379.9	9,003.3	
08	10,672.2	71,128.3	3,635,612.4	2,945,413.2	12,244.9	
09	10,266.3	71,286.3	3,730,255.2	3,044,689.0	10,837.2	
10	10,249.0	46,185.2	3,723,563.2	3,064,678.5	10,740.1	
11	9,794.7	48,662.1	3,715,577.6	3,082,934.9	10,812.5	
2012 12	9,711.6	41,959.8	3,827,721.5	3,099,585.0	11,568.4	

Depository Corporations Survey
Continued

End-of-period	Money	Total deposits & foreign currency current account	IMF loan Ministry of Finance*	Government *lending loans*	Other items (net)
2000 12	130,775.0	128,067.7			27,685.4
2001 12	156,155.3	174,908.9			18,360.9
2002 12	187,727.8	282,397.8			38,409.2
2003 12	212,833.4	490,499.0			67,624.3
2004 12	221,327.6	625,704.9			111,277.8
2005 12	269,124.4	871,014.4		17,272.7	181,791.8
2006 12	331,903.4	1,204,590.0		18,765.0	321,918.9
2007 12	590,471.6	1,810,778.1		17,620.0	262,709.3
2008 12	647,335.3	1,622,666.2		18,122.4	457,330.8
01	535,268.2	1,665,977.3		18,495.5	494,258.4
02	549,886.6	1,764,924.4		19,458.1	520,452.9
03	511,386.8	1,841,171.2		20,449.5	493,103.7
04	517,897.9	1,823,929.6		18,775.8	467,046.0
05	559,144.5	1,845,529.7		19,767.1	459,796.3
06	544,382.1	1,894,865.5		19,879.3	462,881.8
07	521,831.8	1,987,939.3		20,198.0	487,898.3
08	597,140.1	1,966,857.2		20,168.5	479,229.3
09	622,707.3	2,030,707.4		20,421.0	506,925.7
10	608,778.2	2,062,242.6		20,592.0	535,727.8
11	600,593.4	2,114,668.4		21,115.6	587,367.5
2009 12	651,247.0	2,228,786.8		20,201.7	570,466.3
01	629,701.0	2,241,310.1		19,995.3	648,344.5
02	627,897.5	2,353,955.3		19,177.2	664,557.9
03	693,003.0	2,281,480.3		18,075.6	588,954.2
04	754,299.9	2,408,657.9		17,786.0	549,809.9
05	795,971.6	2,458,107.6		16,923.1	558,658.7
06	839,932.0	2,683,675.2		16,456.8	544,942.5
07	826,662.4	2,716,472.8		17,251.7	543,239.1
08	932,036.2	2,725,373.0		16,247.5	504,305.4
09	959,096.3	2,892,619.1		17,499.9	528,653.9
10	1,000,575.4	2,872,484.9		19,034.8	481,583.1
11	995,746.4	2,943,893.7		17,873.9	410,509.6
2010 12	1,157,617.9	3,522,363.5		17,781.0	471,504.4
01	1,131,534.4	3,673,919.9		18,171.1	454,279.9
02	1,031,274.1	3,836,157.5		18,453.8	361,833.2
03	1,181,542.7	3,773,586.1		17,856.7	380,676.4
04	1,338,482.3	4,012,030.3		19,530.3	501,606.6
05	1,422,762.8	4,006,154.0		16,854.6	446,490.7
06	1,552,624.4	4,219,933.5		17,181.1	540,106.4
07	1,559,400.7	4,360,991.7		17,153.5	584,882.9
08	1,653,779.0	4,249,456.1		17,083.4	551,106.1
09	1,676,234.5	4,377,634.3		16,657.5	670,251.4
10	1,622,945.0	4,455,359.6		17,419.3	663,447.8
11	1,552,663.2	4,560,531.7		17,064.5	716,004.4
2011 12	1,741,075.7	4,671,183.6		17,133.5	909,030.4
01	1,565,796.9	4,581,661.8		17,050.7	905,855.9
02	1,500,327.8	4,737,242.4		16,925.2	862,243.0
03	1,488,163.7	4,616,653.9		16,665.7	1,637,095.9
04	1,595,806.6	4,767,102.1		16,467.7	1,615,313.2
05	1,741,358.4	4,988,250.9		15,606.2	1,576,047.1
06	1,797,175.2	5,254,022.5		15,710.8	1,669,223.2
07	1,660,362.3	5,293,169.2		15,575.5	1,625,995.0
08	1,681,086.8	5,316,061.1		16,202.8	1,716,799.9
09	1,658,017.5	5,454,218.5		17,040.1	1,600,459.3
10	1,578,738.0	5,553,907.1		17,108.1	1,274,209.7
11	1,557,134.1	5,476,176.7		17,131.0	1,321,822.2
2012 12	1,835,413.2	5,781,969.3	222,553.6	17,031.9	498,432.5

** Since December 2012 the IMF loan is not reproted in Central bank balance sheet. IMF loan is now reported as a Government account*

Financial Corporations Survey
in millions of tugriks

End-of-period	Net foreign assest	Domestic credit (net)	Which		
			Government	Of which:	
				General Government	Local Government Budget
03	1,439,459.5	2,190,991.3	-629,417.9	-623,859.7	-5,558.2
06	1,797,632.0	2,340,840.1	-599,207.2	-591,966.0	-7,241.2
09	2,096,505.7	2,360,553.6	-787,055.7	-779,067.2	-7,988.5
2010 12	2,736,016.4	2,493,051.3	-835,523.9	-829,644.2	-5,879.7
03	2,613,967.8	2,805,370.5	-996,777.3	-989,064.4	-7,712.9
06	2,943,481.5	3,464,655.4	-1,173,940.0	-1,163,042.2	-10,897.8
09	3,033,837.7	3,783,849.3	-1,360,911.5	-1,351,921.0	-8,990.5
2011 12	3,055,546.7	4,371,688.3	-1,371,073.4	-1,363,784.1	-7,289.3
03	3,341,200.3	4,505,537.9	-1,378,430.1	-1,347,814.7	-30,615.4
06	2,632,492.3	5,396,335.0	-1,031,201.1	-1,019,064.6	-12,136.5
09	2,015,854.1	5,986,804.2	-1,004,831.4	-995,033.1	-9,798.4
2012 12	3,582,987.0	4,306,876.8	-3,040,493.5	-3,033,563.1	-6,930.3

Financial Corporations Survey
Continued

End-of-period	Other financial corporations	Public corporations	Private corporations	Individuals	Other	Unclassified
03	12,013.7	16,948.8	1,760,220.7	1,015,896.2	15,329.8	
06	11,354.6	15,592.9	1,806,502.8	1,096,347.0	10,250.0	
09	11,745.6	37,686.6	1,808,074.9	1,280,652.2	9,450.1	
2010 12	14,067.6	17,073.9	1,854,774.6	1,433,029.7	9,629.5	
03	14,479.0	13,029.5	2,099,485.9	1,667,399.5	7,753.9	
06	14,951.3	16,160.3	2,568,669.9	2,030,617.7	8,196.1	
09	18,284.0	27,143.3	2,770,747.4	2,320,113.9	8,472.1	
2011 12	17,469.1	100,646.0	3,064,543.2	2,554,213.0	5,890.4	
03	16,445.1	50,675.2	3,154,928.2	2,655,002.0	6,917.5	
06	11,774.3	64,108.9	3,451,365.5	2,892,421.2	7,866.2	
09	10,266.3	71,286.3	3,730,255.2	3,168,990.6	10,837.2	
2012 12	9,711.6	41,959.8	3,827,721.5	3,456,408.9	11,568.4	

Financial Corporations Survey
Continued

End-of-period	Money	Total deposits & foreign currency current account	Government *lending loans*	Other items (net)
03	693,003.0	2,281,480.3	18,075.6	637,892.0
06	839,932.0	2,683,675.2	16,456.8	598,408.1
09	959,096.3	2,892,619.1	17,499.9	587,844.1
2010 12	1,157,617.9	3,522,363.5	17,781.0	531,305.3
03	1,181,542.7	3,773,586.1	17,856.7	446,352.7
06	1,552,624.4	4,219,933.5	17,181.1	618,398.0
09	1,676,234.5	4,377,634.3	16,657.5	747,160.6
2011 12	1,741,075.7	4,671,183.6	17,133.5	997,842.2
03	1,488,163.7	4,616,653.9	16,665.7	1,725,255.0
06	1,797,175.2	5,254,022.5	15,710.8	961,918.9
09	1,658,017.5	5,454,218.5	17,040.1	873,382.2
2012 12	1,835,413.2	5,778,910.9	17,031.9	258,507.8

Consumer price index

in percent

End-of-period	Food and non-alcoholic beverages	Of which									Alcoholic beverages, tobacco	Clothing, cloth, footwear
		Food	Of which						Non-alcoholic beverages			
			Bread8 flour cereals	Meat, meat products	Milk, dairy products, eggs	Sugar, candy	Vege-tables	Oils and fats				
						2005.12=100						
2005 12[1]	*41.08*	*39.52*	*9.92*	*16.51*	*3.55*	*1.61*	*4.12*	*2.27*	*1.56*		*2.26*	*12.38*
03	42.51	40.94	9.92	17.12	3.63	1.62	4.61	2.21	1.57		2.26	12.63
06	46.70	45.09	10.11	20.67	3.31	1.97	4.72	2.20	1.61		2.28	12.70
09	42.73	41.10	10.18	19.07	3.23	1.88	4.07	2.22	1.63		2.29	12.86
2006 12	41.96	40.31	10.25	16.39	3.75	1.87	4.12	2.25	1.65		2.41	13.28
03	45.45	43.83	10.28	19.32	3.79	1.84	4.46	2.21	1.62		2.32	13.07
06	50.72	49.08	10.41	24.34	3.33	1.84	4.76	2.28	1.64		2.32	12.66
09	52.17	50.47	12.95	21.79	3.57	1.84	5.08	3.23	1.70		2.41	13.01
2007 12	52.26	50.55	13.87	19.75	4.47	1.87	4.75	3.66	1.72		2.38	13.56
03	60.57	58.73	14.99	24.72	5.22	1.98	5.63	3.72	1.85		2.51	13.80
06	77.03	75.13	19.97	32.57	5.25	2.11	8.36	4.29	1.90		2.52	14.73
09	71.39	69.28	19.78	26.93	5.14	2.22	8.04	4.50	2.11		2.58	16.01
2008 12	65.08	62.96	18.77	21.84	6.03	2.23	7.01	4.41	2.12		2.59	17.10
03	69.62	67.34	19.12	24.40	6.38	2.51	9.09	4.39	2.28		2.85	16.73
06	73.07	70.78	19.15	27.65	5.61	2.73	8.43	4.27	2.29		3.11	16.71
09	66.15	63.79	19.21	21.30	5.30	3.05	7.71	4.24	2.36		3.15	17.39
2009 12	64.76	62.34	18.85	20.14	6.37	3.04	6.96	4.18	2.42		3.17	17.71
03	76.10	73.60	18.74	29.03	6.99	3.42	8.37	4.08	2.50		3.21	18.36
06	86.61	84.15	18.96	40.39	6.20	3.19	8.26	3.99	2.46		3.23	18.20
09	76.11	73.68	20.39	27.81	5.92	3.45	8.84	4.00	2.42		3.25	18.93
2010 12	78.07	75.64	20.76	28.93	7.00	3.41	8.23	4.03	2.43		3.43	19.86
						2010.12=100						
2010 12[2]	*30.03*	*28.61*	*8.26*	*10.11*	*3.40*	*1.09*	*2.95*	*1.45*	*1.42*		*3.69*	*12.17*
01	31.50	30.08	8.26	11.34	3.55	1.09	3.02	1.46	1.42		3.77	12.25
02	31.60	30.17	8.23	11.45	3.52	1.09	3.05	1.46	1.43		3.78	12.39
03	30.72	29.28	8.24	10.58	3.48	1.09	3.06	1.45	1.44		3.78	12.51
04	30.22	28.78	8.20	10.16	3.42	1.09	3.07	1.44	1.44		3.79	12.74
05	31.32	29.89	8.27	11.26	3.34	1.08	3.13	1.42	1.43		3.80	12.71
06	31.70	30.26	8.28	11.28	3.23	1.08	3.59	1.41	1.44		3.80	12.90
07	32.26	30.82	8.29	11.62	3.16	1.08	3.86	1.42	1.44		3.79	12.95
08	31.88	30.44	8.29	11.55	3.12	1.08	3.58	1.43	1.44		3.79	13.22
09	31.70	30.27	8.28	11.66	3.19	1.08	3.21	1.47	1.43		3.79	13.67
10	31.30	29.86	8.28	11.35	3.33	1.10	2.89	1.46	1.43		3.79	14.22
11	31.46	30.01	8.26	11.29	3.49	1.10	2.95	1.47	1.45		3.80	14.46
2011 12	32.31	30.87	8.28	11.91	3.61	1.12	3.03	1.47	1.45		3.80	14.41
01	34.24	32.74	8.32	13.36	3.78	1.15	3.10	1.49	1.50		3.90	14.85
02	36.53	35.03	8.34	15.43	3.82	1.16	3.20	1.53	1.50		3.92	14.94
03	39.41	37.87	8.43	18.07	3.77	1.16	3.30	1.54	1.53		3.97	14.98
04	39.60	38.04	8.42	18.34	3.68	1.16	3.32	1.56	1.55		3.99	15.29
05	40.07	38.52	8.47	18.78	3.59	1.16	3.37	1.55	1.55		4.01	15.32
06	40.19	38.63	8.51	19.01	3.33	1.17	3.57	1.48	1.56		4.02	15.32
07	40.94	39.38	8.53	19.58	3.29	1.18	3.74	1.47	1.56		4.04	15.37
08	40.45	38.89	8.58	18.88	3.26	1.20	3.82	1.48	1.56		4.05	15.56
09	39.30	37.74	8.60	18.27	3.23	1.20	3.24	1.50	1.55		5.69	15.94
10	38.10	36.53	8.69	17.03	3.38	1.20	3.00	1.51	1.57		5.80	16.22
11	38.14	36.57	8.69	16.85	3.51	1.20	3.08	1.51	1.57		5.83	16.26
2012 12	38.75	37.18	8.73	17.11	3.60	1.20	3.30	1.50	1.58		5.87	16.29

Source: Monthly Statistical Bulletin, NSO

[1] *Source: Monthly Statistical Bulletin, NSO*

[2] *Core inflation is estimated after excluding the most price volatile 29 items, such as meat, milk, diary, and vegetables, from consumer basket.*

Consumer price index
Continued

End-of-period	Clothing, Cloth	Of which – Which – Men's clothing	Women's clothing	Cholderen's clothing	Foot-wear	Housing, water, electricity, and fuels	Of which – Water supply, miscellaneous	Electricity gas, other fuels	Furni-shings household, equipment, tools	Medical care, services	Transport
			2005.12=100								
2005 12[1]	*8.11*	*3.26*	*2.93*	*1.11*	*4.27*	*13.40*	*4.24*	*7.60*	*4.30*	*1.62*	*8.71*
03	8.46	3.47	3.07	1.10	4.17	13.12	4.78	6.73	4.34	1.64	9.35
06	8.44	3.40	3.09	1.13	4.26	13.01	4.78	6.67	4.37	1.64	9.42
09	8.58	3.45	3.14	1.17	4.29	14.38	5.18	7.61	4.45	1.66	9.63
2006 12	8.84	3.54	3.21	1.22	4.45	14.70	5.18	7.91	4.64	1.77	9.57
03	8.73	3.50	3.20	1.18	4.32	13.69	5.34	6.60	4.66	1.77	9.60
06	8.41	3.37	3.05	1.14	4.26	13.37	5.34	6.70	4.73	1.79	9.79
09	8.68	3.49	3.07	1.27	4.33	14.91	5.34	7.67	4.98	2.01	10.12
2007 12	8.96	3.58	3.10	1.35	4.60	15.73	5.37	8.41	5.22	2.10	10.59
03	9.19	3.66	3.19	1.39	4.62	15.53	5.37	8.15	5.51	2.18	10.91
06	9.95	3.98	3.55	1.49	4.78	15.65	5.37	8.11	5.76	2.52	11.11
09	10.82	4.42	3.73	1.69	5.19	19.30	5.80	10.93	5.95	2.70	15.05
2008 12	11.35	4.62	3.91	1.76	5.74	18.45	5.83	9.90	5.99	2.68	14.17
03	11.29	4.63	3.85	1.75	5.44	17.78	5.83	9.28	6.17	2.70	13.88
06	11.47	4.79	3.99	1.73	5.24	17.47	5.87	9.04	6.29	2.91	13.08
09	12.09	4.97	4.09	1.89	5.30	17.90	5.89	9.39	6.37	2.95	14.02
2009 12	12.17	4.97	4.14	1.93	5.54	17.74	5.90	9.23	6.37	3.06	14.06
03	12.37	5.07	4.22	1.94	5.99	17.68	6.29	8.81	6.37	3.07	14.19
06	12.49	5.20	4.22	1.96	5.72	18.40	6.29	9.66	6.45	3.11	14.28
09	13.11	5.46	4.32	2.19	5.82	19.54	7.32	9.63	6.50	3.12	14.25
2010 12	13.38	5.57	4.40	2.21	6.48	19.96	7.32	9.96	6.66	3.17	14.32
			2010.12=100								
2010 12[2]	*8.87*	*3.27*	*3.54*	*1.53*	*3.30*	*14.07*	*2.17*	*6.63*	*3.51*	*3.00*	*12.58*
01	8.93	3.31	3.55	1.53	3.32	13.90	2.17	6.40	3.52	3.00	12.58
02	9.04	3.31	3.61	1.57	3.35	13.82	2.17	6.35	3.53	3.01	12.74
03	9.10	3.34	3.63	1.58	3.41	13.62	2.17	6.21	3.53	3.01	12.74
04	9.26	3.42	3.69	1.63	3.47	13.52	2.17	6.02	3.57	3.02	12.82
05	9.20	3.41	3.65	1.62	3.51	14.40	2.27	6.56	3.59	3.03	12.80
06	9.32	3.43	3.68	1.68	3.58	14.28	2.28	6.41	3.63	3.04	13.73
07	9.34	3.43	3.70	1.69	3.61	14.26	2.28	6.33	3.63	3.04	14.02
08	9.60	3.49	3.85	1.73	3.62	14.58	2.28	6.47	3.68	3.04	14.12
09	9.98	3.54	4.09	1.80	3.69	15.99	2.28	7.83	3.69	3.05	14.12
10	10.42	3.79	4.20	1.82	3.80	16.03	2.28	7.83	3.73	3.05	14.14
11	10.51	3.82	4.20	1.87	3.95	16.08	2.28	7.83	3.73	3.05	14.18
2011 12	10.46	3.85	4.12	1.87	3.96	16.09	2.28	7.83	3.70	3.05	14.18
01	10.82	3.87	4.38	1.93	4.03	15.90	2.28	7.64	3.74	3.09	14.84
02	10.89	3.88	4.42	1.95	4.05	15.57	2.28	7.31	3.77	3.14	15.09
03	10.99	3.91	4.51	1.93	3.99	15.33	2.28	7.05	3.80	3.24	15.08
04	11.19	3.94	4.68	1.94	4.10	15.35	2.39	6.92	3.81	3.25	14.66
05	11.20	3.98	4.64	1.95	4.12	15.82	2.39	7.03	3.78	3.25	14.75
06	11.19	3.99	4.64	1.92	4.13	16.06	2.39	7.01	3.79	3.23	14.79
07	11.24	4.00	4.64	1.97	4.13	16.03	2.39	7.01	3.81	3.23	14.79
08	11.36	4.04	4.67	2.02	4.20	16.68	2.39	7.42	3.83	3.33	14.79
09	11.72	4.09	4.84	2.12	4.22	17.22	2.39	7.96	3.82	3.36	14.84
10	12.00	4.21	4.93	2.19	4.22	17.95	2.39	8.60	3.83	3.40	15.08
11	12.12	4.34	4.93	2.16	4.14	17.61	2.39	8.26	3.85	3.41	15.01
2012 12	12.15	4.37	4.92	2.17	4.14	17.49	2.39	8.14	3.87	3.41	15.25

Consumer price index
Continued

End-of-period	Of which: Mainte-nance of personal transport	Of which: Transport services	Communication	Recreation, culture	Education services	Restau-rants, hotel	Miscellaneous goods & services	General CPI	Monthly changes, %	From the begin-ning of the year, %	Annual	Moving average of monthly inflation	Core inflation[2]: Monthly	Core inflation[2]: Changes from the beginning of the year, %	Core inflation[2]: Annual	National CPI: Monthly	National CPI: Changes from the beginning of the year, %	National CPI: Annual
							2005.12=100											
2005 12[1]	*2.47*	*5.76*	*4.05*	*3.33*	*4.15*	*1.72*	*3.00*	*100.0*										
03	2.44	6.46	3.39	3.42	4.15	1.73	3.04	101.59	-0.61	1.59			-0.6					
06	2.53	6.46	3.11	3.50	4.15	1.74	3.22	105.9	1.3	5.9			0.2					
09	2.71	6.48	3.09	3.58	4.58	1.79	3.24	104.3	-0.3	4.3			2.4					
2006 12	2.53	6.07	3.09	3.62	4.58	1.89	3.32	104.8	0.5	4.8	4.8	0.0	0.0					
03	2.54	6.49	2.98	3.60	4.58	1.92	3.33	107.0	0.5	2.0	5.3	0.2	0.0	-1.4	4.0	1.0	2.9	7.2
06	2.64	6.61	2.91	3.52	4.58	1.95	3.34	111.7	2.1	6.5	5.5	0.5	0.1	-1.5	2.7	0.3	5.4	5.9
09	2.82	6.73	2.90	3.51	5.50	2.04	3.39	116.9	1.3	11.6	12.1	0.5	3.0	7.4	9.1	2.0	11.0	12.6
2007 12	3.19	6.81	2.90	3.73	5.50	2.08	3.48	119.5	0.5	14.0	14.0	0.4	-0.6	12.5	12.5	1.8	17.8	17.8
3	3.47	6.84	2.89	3.90	5.50	2.18	3.51	129.0	2.7	7.9	20.6	1.7	1.6	3.0	17.6	3.2	7.9	24.0
6	3.49	7.01	2.88	3.91	5.50	2.47	3.88	147.9	1.9	23.8	32.4	2.5	1.0	11.2	28.0	0.3	18.8	33.7
9	4.54	9.86	2.78	3.95	7.57	2.76	3.99	154.0	-0.2	28.8	31.7	2.4	2.6	24.4	30.2	0.5	24.6	32.2
2008 12	3.59	9.87	2.78	4.05	7.57	2.80	4.02	147.3	-0.5	23.2	23.2	1.6	-0.5	23.1	23.1	0.0	22.1	22.1
03	3.49	9.63	2.77	4.08	7.57	2.86	4.25	151.3	2.8	2.7	17.2	1.1	1.3	0.4	19.9	1.8	3.2	16.3
06	3.00	9.37	2.99	4.19	7.57	3.03	4.42	155.0	-0.7	5.1	4.7	0.4	0.2	1.0	12.3	-1.4	4.2	6.3
09	3.77	9.58	2.98	4.10	8.25	3.13	4.66	151.1	-1.2	2.6	-1.9	-0.2	1.0	4.1	3.3	-0.1	2.1	0.0
2009 12	3.82	9.57	2.98	4.14	8.25	3.14	4.66	150.0	0.2	1.9	1.9	0.2	0.2	4.1	4.1	0.7	4.2	4.2
03	3.83	9.61	3.48	4.16	8.25	3.42	4.72	163.0	1.9	8.7	7.8	0.6	-0.3	2.2	6.0	1.9	7.4	8.5
06	3.79	9.75	3.48	4.12	8.25	3.48	4.74	174.3	0.1	16.2	12.6	1.0	0.7	3.0	6.1	-1.5	11.4	11.4
09	3.76	9.74	3.48	4.16	9.93	3.51	4.79	167.6	-1.4	11.7	10.9	0.9	0.4	7.3	7.2	-0.7	8.3	10.6
2010 12	3.85	9.73	3.48	4.20	9.93	3.61	4.80	171.5	2.4	14.3	14.3	1.1	0.3	9.4	9.4	2.4	13.0	13.0
							2010.12=100											
2010 12[2]	*4.92*	*3.74*	*4.41*	*3.10*	*6.12*	*3.55*	*3.77*	*100.0*										
01	4.92	3.74	4.41	3.10	6.12	3.55	3.78	101.5	1.5	1.5	13.0	1.1	0.1	0.1	8.9	1.5	1.5	8.6
02	5.06	3.75	4.41	3.10	6.12	3.55	3.78	101.8	0.3	1.8	9.2	0.8	0.3	0.3	7.9	0.5	2.0	8.7
03	5.06	3.76	4.42	3.10	6.12	3.55	3.78	100.9	-0.9	0.9	6.1	0.5	-0.1	0.3	8.3	-0.4	1.6	9.1
04	5.15	3.76	4.42	3.12	6.12	3.55	3.81	100.7	-0.2	0.7	3.3	0.3	0.3	0.6	8.9	-0.1	1.6	9.3
05	5.11	3.76	4.43	3.13	6.12	3.56	3.87	102.8	2.0	2.8	1.2	0.1	1.2	1.8	9.8	1.5	3.1	8.9
06	5.57	4.23	4.43	3.19	6.12	3.63	3.93	104.4	1.6	4.4	2.7	0.2	1.4	3.3	10.7	1.1	4.3	9.7
07	5.57	4.51	4.42	3.20	6.12	3.63	3.93	105.2	0.8	5.2	7.8	0.6	0.4	3.7	10.7	0.7	5.0	9.6
08	5.58	4.60	4.42	3.20	6.58	3.63	3.93	106.1	0.8	6.1	7.0	0.6	1.4	5.1	8.1	0.3	5.3	10.3
09	5.58	4.60	4.42	3.20	6.58	3.65	3.93	107.8	1.6	7.8	10.3	0.8	2.2	7.4	10.1	1.1	6.5	10.8
10	5.59	4.60	4.42	3.21	6.58	3.68	3.98	108.1	0.3	8.1	11.8	0.9	0.9	8.4	10.1	0.4	6.9	10.5
11	5.62	4.61	4.42	3.21	6.58	3.68	4.00	108.6	0.5	8.6	11.3	0.9	0.4	8.8	9.8	0.7	7.7	9.8
2011 12	5.62	4.62	4.42	3.16	6.58	3.68	4.00	109.4	0.7	9.4	9.4	0.8	-0.1	8.7	8.7	1.1	8.9	8.9
01	6.21	4.68	4.42	3.21	6.58	3.76	4.06	112.6	2.9	2.9	10.9	0.9	1.7	1.7	10.5	2.8	2.8	10.2
02	6.07	4.70	4.40	3.26	6.58	4.21	4.06	115.5	2.6	5.6	13.4	1.1	0.7	2.4	11.0	2.5	5.4	12.4
03	6.02	4.74	4.40	3.27	6.58	4.21	4.08	118.3	2.5	8.2	17.3	1.3	0.2	2.6	11.3	2.2	7.6	15.3
04	5.83	4.74	4.40	3.29	6.58	4.28	4.09	118.6	0.2	8.4	17.8	1.4	0.1	2.7	10.9	0.5	8.2	16.0
05	5.94	4.71	4.38	3.28	6.58	4.43	4.11	119.8	1.0	9.5	16.6	1.3	0.8	3.5	10.6	1.0	9.2	15.4
06	5.98	4.71	4.38	3.25	6.58	4.43	4.12	120.1	0.3	9.8	15.1	1.2	0.2	3.7	9.2	0.5	9.7	14.7
07	5.98	4.71	4.38	3.23	6.58	4.43	4.12	120.9	0.7	10.6	14.9	1.2	0.1	3.8	8.9	0.6	10.4	14.5
08	5.98	4.71	4.38	3.28	7.64	4.48	4.14	122.6	1.4	12.1	15.6	1.2	2.5	6.4	10.1	0.7	11.1	14.9
09	6.03	4.71	4.36	3.22	7.64	4.48	4.17	124.0	1.2	13.4	15.1	1.2	2.8	9.3	10.7	1.0	12.2	14.8
10	6.03	4.71	4.36	3.25	7.64	4.48	4.22	124.3	0.2	13.7	15.0	1.2	1.6	11.1	11.4	0.6	12.9	15.0
11	6.03	4.73	4.36	3.28	7.64	4.48	4.23	124.1	-0.2	13.4	14.2	1.1	-0.3	10.8	10.7	0.2	13.1	14.4
2012 12	6.17	4.73	4.36	3.28	7.64	4.48	4.25	124.9	0.7	14.2	14.2	1.1	0.3	11.1	11.1	0.8	14.0	14.0

Deposit rate

in percent, annual

End-of-period	Deposit rate								
	Current account				Deposit				
	Offered rate highest, lowest		Weigthed average rate		Demand deposit	*Time deposit*		Weigthed average rate	
	DC	FC	DC	FC		DC 0-1 year	FC 0-1 year	DC	FC
2000 12	2.4-6.0	1.0-3.6			1.2-13.2	3.6-24.0	1.2-12.0		
2001 12	0.0-5.1	0.3-4.2			1.2-9.60	2.4-24.0	1.0-13.2		
2002 12	0.0-6.0	0.3-3.0			2.4-10.2	6.0-22.0	1.2-12.0		
2003 12	0.0-6.0	0.3-3.0			1,8-10.0	6.0-22.0	2.4-12.0		
2004 12	0.0-4.8	0.3-3.0			6.0-9.60	6.0-20.4	1.4-9.60		
2005 12	0.0-4.8	0.0-7.2			6.0-9.96	6.0-19.2	1.4-10.8		
2006 12	0.0-5.0	0.0-4.0			6.0-10.2	7.56-19.4	1.4-11.4		
2007 12	0.0-4.8	0.0-3.6			6.0-10.3	7.56-19.3	1.2-11.4		
2008 12	0.0-7.2	0.0-3.6	2.4	1.1	4.8-12.0	2.4-19.4	1.2-14.04	13.6	7.4
01	0.0-7.2	0.0-4.2	2.3	1.1	4.8-12.0	2.4-19.4	1.4-14.04	13.6	6.9
02	0.0-7.2	0.0-4.2	2.2	1.2	4.8-12.0	2.4-19.4	1.4-15.60	13.4	7.2
03	0.0-5.4	0.0-4.2	2.4	1.1	4.8-12.0	2.4-19.4	1.4-14.04	13.5	6.3
04	0.0-5.4	0.0-3.6	2.1	1.0	4.8-12.0	2.4-19.4	1.4-14.04	13.6	6.2
05	0.0-7.2	0.0-7.2	2.1	1.1	4.8-12.0	2.4-19.4	1.4-14.04	13.2	7.2
06	0.0-7.3	0.0-7.3	2.2	1.1	4.8-12.1	2.4-19.5	1.4-14.05	13.2	7.0
07	0.0-7.3	0.0-7.3	2.3	1.3	4.8-12.1	2.4-19.5	1.4-14.05	13.1	6.8
08	0.0-7.2	0.0-7.2	2.4	1.0	4.8-12.0	2.4-19.4	1.4-14.04	13.2	7.0
09	0.0-7.2	0.0-7.2	2.5	1.1	4.8-12.0	2.4-19.6	1.4-14.04	13.2	7.0
10	0.0-7.2	0.0-7.2	2.5	1.2	3.6-12.0	2.4-19.2	1.2-14.04	13.2	6.3
11	0.0-7.2	0.0-7.2	2.6	1.3	3.6-12.0	2.4-19.2	1.2-14.04	13.24	6.8
2009 12	0.0-7.2	0.0-7.2	2.6	1.8	3.6-12.0	2.4-19.2	1.2-14.04	12.9	6.4
01	0.0-7.2	0.0-7.2	2.6	1.8	0.0-18.0	2.4-19.2	1.2-14.04	12.9	6.2
02	0.0-8.4	0.0-3.0	2.7	1.6	0.0-12.0	6.0-19.2	1.4-14.04	12.3	5.8
03	0.0-8.4	0.0-3.0	2.9	1.6	0.0-12.0	6.0-19.2	1.0-14.04	12.3	5.7
04	0.0-8.4	0.0-3.0	2.9	1.5	0.1-17.0	6.0-19.2	1.0-14.04	12.2	5.7
05	0.0-8.4	0.0-3.0	2.8	1.5	0.0-8.4	2.4-19.2	0.6-14.04	12.0	6.1
06	0.0-8.4	0.0-3.0	2.9	1.6	0.0-8.4	6.0-18.5	0.6-14.04	11.9	5.8
07	0.0-8.4	0.0-3.0	2.9	1.6	0.0-8.4	6.0-19.2	0.6-14.04	11.7	5.7
08	0.0-8.4	0.0-3.0	2.9	1.8	0.0-10.2	6.0-19.2	0.6-14.04	11.8	5.8
09	0.0-8.4	0.0-3.0	3.0	1.8	0.0-8.4	6.0-19.2	0.6-14.04	11.8	5.7
10	0.0-8.4	0.0-3.0	3.5	1.8	0.0-8.4	6.0-19.2	0.6-14.04	11.6	5.4
11	0.0-8.4	0.0-3.0	3.4	2.0	0.0-8.4	6.0-19.2	0.6-14.04	11.1	3.4
2010 12	0.0-8.4	0.0-3.0	3.2	1.6	0.0-8.4	6.0-18.0	0.6-14.04	10.7	4.0
01	0.0-7.2	0.0-3.0	3.2	1.3	0.0-8.4	6.0-18.0	0.6-14.04	10.7	4.3
02	0.0-7.2	0.0-3.0	3.1	1.3	0.0-8.4	6.0-18.5	0.6-14.04	10.6	4.9
03	0.0-7.2	0.0-3.0	3.1	1.3	0.0-8.4	6.0-18.5	0.6-14.04	10.5	5.0
04	0.0-7.2	0.0-3.0	2.9	1.4	0.0-8.4	6.0-18.0	0.6-14.04	10.7	4.8
05	0.0-7.2	0.0-3.0	3.0	1.3	0.0-8.4	6.0-18.0	0.6-14.04	10.4	5.0
06	0.0-7.2	0.0-7.2	3.0	1.3	0.0-8.4	6.0-18.0	0.6-14.04	10.3	4.2
07	0.0-7.2	0.0-7.2	2.9	1.3	0.0-8.4	6.0-18.0	0.6-14.04	10.4	4.9
08	0.0-7.2	0.0-7.2	3.0	1.2	0.0-8.4	6.0-18.0	0.6-14.04	10.3	4.7
09	0.0-7.2	0.0-7.2	2.8	1.1	0.0-8.4	6.0-18.0	0.6-14.04	10.2	4.7
10	0.0-7.2	0.0-7.2	3.0	1.2	0.0-8.4	6.0-18.0	0.6-14.04	10.4	4.7
11	0.0-7.2	0.0-7.2	2.9	1.3	0.0-8.4	3.0-18.0	0.6-14.04	10.5	4.7
2011 12	0.0-7.2	0.0-7.2	2.8	1.1	0.0-8.4	3.0-18.0	1.0-10.2	10.5	4.5
01	0.0-7.2	0.0-7.2	2.9	1.5	0.0-8.4	3.0-18.0	1.0-15.2	10.8	4.6
02	0.0-7.8	0.0-7.2	3.0	1.3	0.0-8.4	3.0-18.0	1.0-15.2	10.8	4.7
03	0.0-7.8	0.0-7.2	2.8	1.4	0.0-8.4	4.0-18.0	1.0-15.2	10.8	4.9
04	0.0-7.8	0.0-7.2	2.8	1.4	0.0-8.4	4.0-18.0	1.0-15.2	11.0	5.6
05	0.0-7.8	0.0-7.2	2.7	1.4	0.0-8.4	3.0-18.0	1.0-15.2	11.2	6.1
06	0.0-7.8	0.0-18.0	2.5	1.4	0.0-8.4	3.0-18.0	1.0-15.2	11.0	5.9
07	0.0-7.8	0.0-18.0	2.6	1.4	0.0-8.4	3.0-18.0	1.0-15.2	11.2	5.9
08	0.0-15.6	0.0-18.0	2.6	1.5	0.0-8.4	3.0-18.0	1.0-15.2	11.4	6.0
09	0.0-15.0	0.0-18.0	2.8	1.5	0.0-8.4	3.0-18.0	1.0-15.2	11.5	5.5
10	0.0-8.0	0.0-14.4	2.9	1.5	0.0-8.4	6.0-18.0	0.6-15.2	11.8	5.6
11	0.0-7.2	0.0-4.8	2.9	1.5	0.0-16.2	6.0-18.0	0.6-15.2	12.0	5.6
2012 12	0.0-7.2	0.0-7.2	2.7	1.3	1.8-16.2	6.0-18.0	0.6-15.2	11.7	6.1

Other rate
in percent, annual

End-of-period	Centrel bank's bills rate		Interbank market rate	Bank loan rates		
	Policy rate	Weigthed average rate	Weigthed average rate	Lending rates		Paid rate
				DC	FC	
2000 12		8.6		34.7	25.8	
2001 12		8.6		41.4	22.2	
2002 12		9.9	6.91	33.4	19.8	30.7
2003 12		11.5	10.24	31.5	19.6	30.2
2004 12		15.75	15.36	30.0	17.9	25.0
2005 12		4.75	6.13	28.3	14.8	23.5
2006 12		6.42	6.12	24.5	15.5	23.0
2007 12	8.40	9.85	8.25	19.9	14.2	21.7
2008 12	9.75	14.78	17.87	20.4	16.8	19.3
01	9.75	12.07	19.15	21.2	17.5	19.3
02	9.75	11.14	15.78	21.6	17.0	20.8
03	14.00	13.59	17.86	20.4	19.4	18.8
04	14.00	16.14	15.75	19.5	19.9	18.7
05	12.75	16.83	15.33	23.3	17.6	18.5
06	11.50	16.48	15.05	23.5	16.3	18.5
07	11.50	14.05	11.89	23.4	17.6	18.6
08	11.50	12.85	11.20	23.7	15.9	18.6
09	10.00	11.95	11.51	22.2	14.8	18.5
10	10.00	10.89	10.36	21.9	15.8	18.6
11	10.00	10.64	10.33	18.6	16.4	18.6
2009 12	10.00	10.82	8.58	20.8	16.5	18.7
01	10.00	10.45	7.22	22.2	15.4	18.8
02	10.00	10.36	8.43	21.4	14.9	18.9
03	10.00	10.03	7.24	20.0	14.9	19.2
04	10.00	10.03	10.23	20.5	15.6	19.2
05	11.00	10.24	9.53	20.2	14.5	19.5
06	11.00	10.87	10.42	19.7	14.0	19.4
07	11.00	11.27	10.71	19.4	14.3	19.1
08	11.00	11.21	8.82	20.4	14.0	18.9
09	11.00	11.01	10.33	19.4	14.1	19.0
10	11.00	10.07	8.63	19.5	13.8	18.9
11	11.00	10.44	9.53	18.9	12.9	18.9
2010 12	11.00	10.99	9.45	17.9	12.6	19.0
01	11.00	10.77	9.33	18.4	12.5	18.8
02	11.00	10.93	8.38	17.8	12.2	18.4
03	11.00	10.81	10.15	15.8	13.0	18.2
04	11.50	10.95	11.38	16.4	12.9	17.9
05	11.50	11.37	11.71	16.6	14.3	17.9
06	11.50	11.65	9.36	16.2	12.3	17.9
07	11.50	11.67	9.29	17.4	12.2	17.9
08	11.75	11.63	9.18	17.2	12.7	17.7
09	11.75	11.77	10.50	16.1	12.1	17.3
10	12.25	12.23	10.59	15.9	13.3	17.1
11	12.25	13.22	11.48	16.1	12.2	16.8
2011 12	12.25	14.25	12.11	15.5	12.1	16.6
01	12.25	14.25	12.27	15.5	13.0	16.4
02	12.25	14.53	12.27	18.4	14.0	16.4
03	12.75	14.42	12.17	17.9	12.4	16.4
04	13.25	14.88	12.91	18.4	12.4	16.3
05	13.25	15.40	11.50	18.6	12.9	16.1
06	13.25	15.69	12.39	17.9	12.9	16.0
07	13.25	15.95	13.30	18.3	12.9	16.0
08	13.25	16.31	14.13	18.3	14.1	16.0
09	13.25	16.59	14.80	18.6	14.2	16.0
10	13.25	16.33	15.18	18.7	14.4	16.0
11	13.25	16.25	14.71	18.6	13.3	16.0
2012 12	13.25	15.47	13.97	18.2	13.5	16.1