

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

31 December 2014 and 2013

(With Independent Auditors' Report Thereon)

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Trade and Development Bank of Mongolia LLC
Corporate Information

**Registered office and
principal place of business**

Juulchny Street-7
Baga toiruu-12
Ulaanbaatar, Mongolia

Board of Directors

D.Erdenebileg (Chairman)
R.Koppa
Z.Shagdarsuren
T.Tsolmon
Ch.Enkhbold

Secretary of Bank

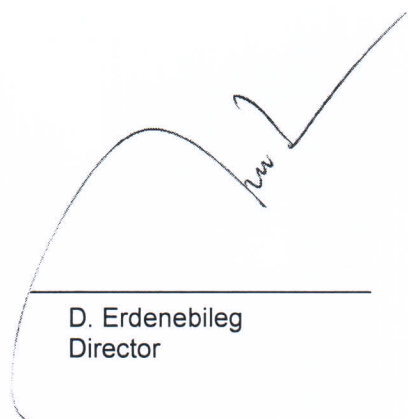
D. Davaajav

Independent auditors

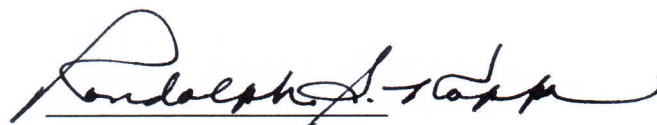
KPMG Samjong Accounting Corp.
Seoul, Korea

Statement by Directors and Executives

We, D. Erdenebileg, R. Koppa and B. Medree, being the directors and executives of Trade and Development Bank of Mongolia LLC (the "Bank"), and D. Yanjmaa, being the officer primarily responsible for the consolidated financial statements of the Bank and its subsidiaries (together the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014 and 2013 and of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.




D. Erdenebileg
Director



R. Koppa
President



B. Medree
Chief Executive Officer



D. Yanjmaa
Director of Financial Management and
Control Department

Ulaanbaatar, Mongolia

Date : 30 March 2015



KPMG Samjong Accounting Corp.

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Independent Auditors' Report

The Board of Directors and Shareholders
Trade and Development Bank of Mongolia LLC:

We have audited the accompanying consolidated financial statements of Trade and Development Bank of Mongolia (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 consolidated financial statements.

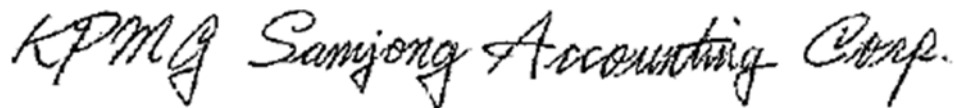
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014 and 2013, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

Other Matter

This report is made solely to the members of the Bank, as a body, those in connection with the potential offering of US\$ notes by the Bank, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink that reads 'KPMG Samjong Accounting Corp.' in a cursive, flowing script.

KPMG Samjong Accounting Corp.
30 March 2015
Seoul, Korea

This report is effective as at 30 March 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position

31 December 2014 and 2013

	Note	2014 MNT'000	2013 MNT'000
Assets			
Cash and due from banks	5	1,054,739,557	1,090,245,012
Investment securities	6	908,732,944	885,112,661
Investment in associates and joint ventures	7	14,530,077	10,416,001
Loans and advances, net	8	2,777,188,433	2,530,557,178
Subordinated loans	9	4,000,000	7,000,000
Property and equipment, net	10	298,042,268	153,297,326
Intangible assets, net	11	4,542,466	4,270,615
Investment property	12	33,689,000	33,388,245
Foreclosed real properties, net	13	1,020,454	6,057,155
Current tax assets		5,676,348	-
Other assets	14	311,018,769	403,730,785
Total assets		5,413,180,316	5,124,074,978
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	15	2,533,607,001	2,139,692,149
Deposits and placements by banks and other financial institutions	16	120,007,336	172,109,699
Bills sold under repurchase agreements	17	-	372,650,503
Borrowings	18	1,107,328,964	1,157,090,928
Current tax liabilities		361,331	7,646,234
Debt securities issued	19	741,354,845	460,563,148
Subordinated debt securities issued	20	75,351,569	66,036,156
Other liabilities	21	279,151,158	379,224,697
Total liabilities		4,857,162,204	4,755,013,514
Equity			
Share capital	22	16,525,280	16,525,280
Share premium		19,272,456	19,272,456
Treasury shares	23	(2,620,626)	(2,620,626)
Revaluation reserves	24	153,645,983	18,555,196
Accumulated unrealised gain (loss) on available-for-sale financial assets	24	(27,487,697)	14,153,606
Retained earnings		395,019,832	301,599,783
Total equity attributable to equity holders of the Group		554,355,228	367,485,695
Non-controlling interests		1,662,884	1,575,769
Total equity		556,018,112	369,061,464
Total liabilities and equity		5,413,180,316	5,124,074,978

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2014 and 2013

	Note	2014 MNT'000	2013 MNT'000
Interest income	25	444,673,852	321,438,593
Interest expense	26	(296,489,329)	(200,692,181)
Net interest income		<u>148,184,523</u>	<u>120,746,412</u>
Net fee and commission income	27	27,364,138	21,525,806
Other operating income, net	28	30,882,990	68,684,766
Net non-interest income		<u>58,247,128</u>	<u>90,210,572</u>
Operating income		206,431,651	210,956,984
Operating expense	29	(68,785,944)	(44,477,351)
Share of profit of an associate	7	1,085,417	204,056
Provision for impairment losses	30	(44,749,513)	(8,255,683)
Profit before tax		93,981,611	158,428,006
Income tax expense	32	(474,447)	(19,164,321)
Net profit for the year		<u>93,507,164</u>	<u>139,263,685</u>
Other comprehensive income for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	10, 24	135,090,787	-
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	24	(41,641,303)	(11,654,040)
Other comprehensive income (loss)		<u>93,449,484</u>	<u>(11,654,040)</u>
Total comprehensive income for the year		<u>186,956,648</u>	<u>127,609,645</u>
Profit attributable to:			
Equity holders of the Bank		93,420,049	139,263,685
Non-controlling interests		87,115	-
Net profit for the year		<u>93,507,164</u>	<u>139,263,685</u>
Total comprehensive income attributable to:			
Equity holders of the Bank		186,869,533	127,609,645
Non-controlling interests		87,115	-
Total comprehensive income for the year		<u>186,956,648</u>	<u>127,609,645</u>

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended 31 December 2014 and 2013

		Attributable to equity holders of the Group							
Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	Revaluation reserves MNT'000	Accumulated unrealised gain on available-for-sale financial assets MNT'000	Retained earnings MNT'000	Total MNT'000	Non-controlling interest MNT'000	Total equity MNT'000
1 January 2013	16,525,280	19,272,456	(2,620,626)	18,555,196	25,807,646	162,336,098	239,876,050	-	239,876,050
Total comprehensive income									
Net profit for the year	-	-	-	-	-	139,263,685	139,263,685	-	139,263,685
Other comprehensive income									
Net unrealised change in fair value of available-for-sale financial assets	24	-	-	-	(11,654,040)	-	(11,654,040)	-	(11,654,040)
Acquisition of subsidiary with non-controlling interests	4	-	-	-	-	-	-	1,575,769	1,575,769
Total comprehensive income		-	-	-	(11,654,040)	139,263,685	127,609,645	1,575,769	129,185,414
31 December 2013	<u>16,525,280</u>	<u>19,272,456</u>	<u>(2,620,626)</u>	<u>18,555,196</u>	<u>14,153,606</u>	<u>301,599,783</u>	<u>367,485,695</u>	<u>1,575,769</u>	<u>369,061,464</u>
1 January 2014	16,525,280	19,272,456	(2,620,626)	18,555,196	14,153,606	301,599,783	367,485,695	1,575,769	369,061,464
Total comprehensive income									
Net profit for the year	-	-	-	-	-	93,420,049	93,420,049	87,115	93,507,164
Other comprehensive income									
Net unrealised change in fair value of available-for-sale financial assets	24	-	-	-	(41,641,303)	-	(41,641,303)	-	(41,641,303)
Net change in revaluation reserves of property and equipment	24	-	-	135,090,787	-	-	135,090,787	-	135,090,787
Total comprehensive income		-	-	135,090,787	(41,641,303)	93,420,049	186,869,533	87,115	186,956,648
31 December 2014	<u>16,525,280</u>	<u>19,272,456</u>	<u>(2,620,626)</u>	<u>153,645,983</u>	<u>(27,487,697)</u>	<u>395,019,832</u>	<u>554,355,228</u>	<u>1,662,884</u>	<u>556,018,112</u>

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended 31 December 2014 and 2013

	Note	2014 MNT'000	2013 MNT'000
Cash flows from operating activities:			
Net profit		93,507,164	139,263,685
Adjustments for:			
Depreciation and amortisation	10, 11, 29	5,910,296	4,168,064
Share of profit of an associate	7	(1,085,417)	(204,056)
Gain on disposition of securities	28	(8,051,659)	(27,696,971)
Net interest income	25, 26	(148,184,523)	(120,746,412)
Income tax expense	32	474,447	19,164,321
Gain (Loss) on disposition of property and equipment	28	(7,840,637)	720
Property and equipment written off	29	6,313	18,772
Provision for impairment losses	30	44,749,513	8,255,683
Valuation gain on investment property	12, 28	(300,755)	(7,171,395)
Operating profit before changes in operating assets and liabilities:		<u>(20,815,258)</u>	<u>15,052,411</u>
Increase in loans and advances	8	(287,331,592)	(1,011,604,706)
Decrease in subordinated loan	9	3,000,000	-
Decrease (Increase) in other assets(*)	14	109,630,300	(255,666,692)
Increase in deposits from customers	15	393,914,852	737,365,386
Increase (Decrease) in deposits and placements by banks and other financial institutions	16	(52,102,363)	135,591,216
Increase (Decrease) in other liabilities(*)	21	(131,195,158)	240,554,846
Increase in balances with BOM	5, 34	(1,963,111)	(438,486,750)
Interest received		423,706,197	298,189,264
Interest paid		(260,922,498)	(187,720,638)
Income taxes paid		<u>(13,435,698)</u>	<u>(14,001,498)</u>
Net cash flows provided by (used in) operating activities		<u>162,485,671</u>	<u>(480,727,161)</u>
Cash flows from investing activities:			
Purchase of investment securities	6	(1,477,483,667)	(709,471,336)
Disposal of investment securities	6	1,422,593,196	297,198,079
Purchase of property and equipment	10	(20,574,551)	(49,148,114)
Purchase of intangible assets	11	(993,393)	(964,803)
Proceeds from disposal of foreclosed real properties	13	1,004,784	157,148
Proceeds from disposal of property and equipment	10	13,565,966	33,709
Purchase of investment in associates and joint ventures	7	(1,316,003)	(7,784,766)
Acquisition of subsidiary	4	-	(4,791,214)
Net cash flows used in investing activities		<u>(63,203,668)</u>	<u>(474,771,297)</u>

(*) Represents fluctuation of other assets and other liabilities other than changes in accrued interest receivables and accrued interest payables, respectively.

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended 31 December 2014 and 2013

	Note	2014 MNT'000	2013 MNT'000
Cash flows from financing activities:			
Proceeds from borrowings	18	730,295,187	969,513,213
Repayments of borrowings	18	(780,057,151)	(45,386,369)
Net proceeds from (Repayment of) bills sold under repurchase agreements	17	(372,650,503)	371,154,865
Proceeds from (Repayments of) debt securities issued	19	276,419,790	(143,293,377)
Proceeds from subordinated debt securities issued	20	9,242,108	10,455,134
Net cash flows provided by (used in) financing activities		<u>(136,750,569)</u>	<u>1,162,443,466</u>
Net increase (decrease) in cash and cash equivalents		(37,468,566)	206,945,008
Cash and cash equivalents at beginning of year		<u>401,222,441</u>	<u>194,277,433</u>
Cash and cash equivalents at end of year	34	<u>363,753,875</u>	<u>401,222,441</u>

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

1 Organisation and business

Trade and Development Bank of Mongolia LLC (the "Bank"), the controlling company, and its subsidiaries included in consolidation (together the "Group") are summarised as follows:

Controlling company

The Bank is a Mongolian domiciled limited liability company, incorporated in accordance with the Company Law of Mongolia. The Bank was given special permission to conduct banking activities by Decree No.3/149 issued by the President of the Bank of Mongolia ("BOM") on 29 May 1993 in accordance with the Banking Law of Mongolia, and License No.8 was renewed by BOM on 27 February 2002.

Pursuant to the aforementioned resolutions, license and charter, the Bank conducts banking activities such as cash savings, lending, handling and settlements of cash transfers, foreign currency transactions and other banking activities through its 22 branches and 25 settlement centers.

Subsidiaries included in consolidation

(i) *TDB Capital LLC*

The Bank established TDB Capital LLC ("TDBC"), a wholly owned subsidiary, on 14 August 2008. TDBC is a Mongolian domiciled limited liability company incorporated in accordance with the Company Law of Mongolia and may be engaged in financial services activities within the parameters set forth in the Company Law, Civil Law and Law of Security Market of Mongolia and other relevant laws and regulations and those activities include, but are not limited to, brokerage and underwriting services to various customers.

(ii) *TDB Media LLC and its subsidiaries*

TDB Media LLC ("TDBM") was established in 2011. The Bank has been cooperating with Bloomberg L.P. to broadcast international financial news through TDBM, which is a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011. The Group additionally invested in TDBM on 19 November 2013 and the Group hold approximately 84.4% of TDBM as at 31 December 2014. TDBM owns 100% of the Bloomberg TV Mongolia LLC and 70% of Grand Step LLC which carries out publication of magazines as at 31 December 2014.

The direct parent company of the Group is Globull Investment and Development SCA ("Globull"), which owns a 65.83% interest in the Group and is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC ("US Global"), which is incorporated in the United States of America. US Global is a consortium owned by Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Group), and it had directly owned approximately 7.32% of the Group. Consequently, US Global's ownership in the Group directly and indirectly through Globull amounted to approximately 73.14% as at 31 December 2014. Goldman Sachs owns 157,862 shares (or 4.78% interest) and approximately 18.27% of the Group's total outstanding ordinary shares are owned by various individuals as at 31 December 2014.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

1 Organisation and business (continued)

Condensed financial statements of subsidiaries as at 31 December 2014 and 2013, and for the years ended 31 December 2014 and 2013 were as follows:

Subsidiaries	2014 MNT'000		2013 MNT'000	
	Asset	Liability	Asset	Liability
TDB Capital	23,484,757	265,524	22,356,806	327,670
TDB Media	12,127,687	1,788,581	10,393,632	321,068

Subsidiaries	2014 MNT'000		2013 MNT'000	
	Operating revenue	Net income	Operating revenue	Net Income (loss)
TDB Capital	913,714	1,190,097	365,501	846,816
TDB Media	140,593	212,703	35,405	(1,529,480)

2 Basis of preparation

Statement of compliance

The accompanying financial statements are consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards ("IFRS") as modified by the BOM guidelines.

The major items modified by the BOM guidelines that are not in compliance with IFRS include the following, and the details are included in the corresponding notes:

- Allowance for loan loss reserves, receivables, letters of credit, unused credit commitments and foreclosed properties
- Accounting for deferred tax

The consolidated financial statements were authorised for issue by the Board of Directors on 30 March, 2015.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments that are measured at fair value
- Available-for-sale financial assets that are measured at fair value
- Certain property and equipment that are measured at fair value subsequent to acquisition
- Investment property that is measured at fair value
- Precious metal that is measured at fair value

Functional and presentation currency

These consolidated financial statements are presented in Mongolian Togrog ("MNT"), rounded to the nearest thousand. MNT is the Bank's functional currency.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

2 Basis of preparation (continued)

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments of the Group in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are allowance for loan losses, valuation of financial instruments, and valuation of property and equipment and investment property.

Changes in accounting policies

Except for the following new standards and amendments to existing standards, the Group applies its accounting policies consistently which were used for preparing its annual consolidated financial statements as of and for the year ended 31 December 2013. The following changes in accounting policies are reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2014.

(i) *Amendments to IAS 32 Financial Instruments: Presentation*

The Group applied the amendments to IAS 32 Financial Instruments: Presentation from January 1, 2014. This standard states that a financial asset and a financial liability is offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A legally enforceable right of set-off means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties.

To meet the net settlement criterion, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(ii) *Amendments to IAS 39 Financial Instruments: Recognition and Measurement*

IAS 39 Financial Instruments: Recognition and Measurement clarifies the effect of hedging relationships in which a derivative has been designated as a hedging instrument when that derivative is novated to a central counterparty (CCP). The Group applied the standard from January 1, 2014. There is no significant impact of the amendments on the consolidated financial statements.

2 Basis of preparation (continued)

Changes in accounting policies (continued)

(iii) IFRIC 21 Levies

The Group applied the IFRIC 21 Levies from January 1, 2014. This standard defines the obligating event that gives rise to a liability to pay a levy as the activity that triggers the payment of the levy, as identified by the legislation. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. If an obligation to pay a levy is triggered when a minimum activity threshold is reached, the liability that arises from that obligation is recognized when that minimum activity threshold is reached. An entity recognizes an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy. The Group applied the interpretation retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(iv) Amendments to IAS 36 Impairment of Assets

The Group applied the amendments to IAS 36 Impairment of Assets from January 1, 2014. The standard is amended to disclose recoverable amount of an individual asset or a cash-generating unit, when an impairment loss has been recognized or reversed for that individual assets or a cash-generating unit. The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

3 Significant accounting policies

The accounting policies set out below have been consistently applied by the Group and are consistent with those used in previous years other than new accounting policies adopted by the Group in the current year.(see note 2)

Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Intra-group transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

(iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

Business combination

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value.

As at the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognised immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the Group does not recognise goodwill since the transaction is regarded as equity transaction.

3 Significant accounting policies (continued)

Investment in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of available-for-sale equity investment (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss), are recognised in OCI.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)

Financial instruments

(i) Classification

Financial assets and financial liabilities held for trading include debt securities, equity securities and securities acquired and held by the Group for short-term trading purposes. Changes in fair value are recognised in profit or loss.

Derivatives recorded at fair value through profit or loss include certain derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Financial assets or financial liabilities at fair value through profit or loss include those financial assets and financial liabilities designated at initial recognition because 1) such designation eliminates or significantly reduces an accounting mismatch; 2) respective financial assets and financial liabilities are part of a group of financial assets, liabilities or both and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or 3) the embedded derivative does not meet the separation criteria. Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value and changes in fair value are recorded in the current operations.

Originated loans and receivables are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term trading. Originated loans and receivables comprise loans and advances to customers and are reported net of an allowances to reflect the estimated recoverable amounts. The allowance is estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and the Ministry of Finance.(BOM Provisioning Guidelines)

Held-to-maturity assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity, and are not designated at fair value through profit or loss or as available-for-sale. This includes certain investment securities held by the Group.

Available-for-sale assets are non-derivative assets that are designated as available-for-sale or are not classified as another category of financial assets.

3 Significant accounting policies (continued)

Financial instruments (continued)

(ii) *Initial recognition*

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue if the financial assets are not subsequently accounted for at fair value through profit or loss. For financial assets at FVTPL, directly attributable transaction costs are recognised in profit or loss as incurred.

(iii) *Subsequent measurement*

Subsequent to initial recognition, all financial assets and liabilities held for trading, derivatives recorded at fair value through profit or loss, financial assets and liabilities at fair value through profit or loss and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is carried at cost, including transaction costs, less impairment losses. Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognised in profit or loss and directly in equity, respectively.

All non-trading financial liabilities, originated loans and receivables, and held-to-maturity assets are measured at amortised cost less impairment losses where applicable. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial assets and liabilities

(i) *Financial assets*

The Group derecognises a financial assets when the contractual rights to the cash flows from the financial asset expire, or the Group has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria, or if it transfers substantially all the risks and rewards of ownership.

The Group enters into transactions in which it transfers previously recognised financial assets but retains substantially all the associated risks and rewards of those assets. In transactions in which substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the transferred asset if control over that asset (i.e. the practical ability to sell the transferred asset) is relinquished. The rights and obligations retained in the transfer are recognised separately as assets and liabilities, as appropriate. If control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the financial asset transferred.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically-identified cash flow.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)**Derecognition of financial assets and liabilities (continued)****(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statements of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of short-term commitments.

Property and equipment**(i) Recognition and subsequent measurement**

The initial cost of an item of property and equipment comprises its purchase price, including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. After recognition as an asset, property and equipment whose fair value can be measured reliably are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Expenditure incurred after property and equipment has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

The Group revalues its property and equipment to ensure that the fair value of revalued assets does not differ materially from its carrying amount. Surpluses arising from revaluation are dealt with in the revaluation reserve in equity. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same asset. In all other cases, a decrease in carrying amount is charged to profit or loss as impairment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each item of property and equipment. The estimated useful lives of property and equipment are as follows:

● Buildings	40 years
● Office equipment and motor vehicles	10 years
● Computers	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)

Construction-in-progress

Construction-in-progress represents the cost of construction of new buildings and premises, which have not been fully completed or installed. No depreciation is provided for construction-in-progress during the period of construction.

Intangible assets

(i) Acquired intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any impairment losses.

(ii) Amortisation

Amortisation is charged to the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful life of intangible assets is as follows:

- Software 3 years

Amortisation methods and amortisation periods are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is measured at fair value and changes in fair value are recognised in profit or loss.

Due to the commencement of owner-occupation or of development with a view to sell, the deemed cost of investment property carried at fair value transferred to owner-occupied property or inventories is the investment property's fair value at the date of change in use.

If an owner-occupied property becomes an investment property that will be carried at fair value due to the cease of owner-occupation, the Group shall reevaluate it at the fair value at the date of change in use, and reclassify it to investment property.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)

Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

(i) Loans and receivables

Loans and receivables are presented net of allowances for uncollectability. Allowances are made against the carrying amount of loans and receivables that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amount in accordance with BOM Provisioning Guidelines. Increases in the allowance account are recognised in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

In accordance with the BOM Provisioning Guidelines, the Group is required to determine the quality of loans and receivables based on their qualitative factor and time characteristics in classifying them and determining provisions. Such a model classifies the Group's loans and establishes allowances for loan losses at the rates of 1%, 5%, 25%, 50% and 100%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. On 26 August 2014, BOM Provisioning Guidelines were revised and require the Group to recognize 1% (previously 0% was applied) allowance for loan loss for performing loan originated on or after 27 August 2014.

Qualitative characteristics taken into consideration for determining credit classification include completeness of loan file, financial indicators of the borrower, value of the collateral and previous rescheduling of the loan, etc.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3 Significant accounting policies (continued)**Impairment (continued)****(iii) Held-to-maturity financial assets**

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognised in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iv) Assets other than financial instruments

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the respective asset. The recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment is recognised as loss of current operation in the consolidated statements of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised as profit in the consolidated statements of comprehensive income.

Repurchase agreements

The Group enters into purchase (sale) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised on the consolidated statements of financial position. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase considerations is treated as interest income or expense and is accrued over the period of the agreement using the effective interest method.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)

Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognised as a deduction from equity, net of taxes.

(ii) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(iii) Non-controlling interests

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3, 'Business Combinations' and the non-controlling interests share of changes in equity since the date of the combination.

Provisions

A provision is recognised in the consolidated statements of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

3 Significant accounting policies (continued)

Revenue

(i) Interest income

Interest income and expense is recognised in the consolidated statements of comprehensive income as it accrues, taking into account the effective yield of the asset or liability. Interest income and expense include the amortisation of any discount or premium or other differences between the carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis except that the Group does not amortise loan originating costs and fees on an effective interest rate basis but rather recognises them in profit or loss as incurred.

(ii) Fee and commission income

Fee and commission income is charged to customers for the financial services provided. Fee and commission income is recognised when the corresponding service is provided.

(iii) Rental income

Rental income from leased property is recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iv) Dividends

Dividend income is recognised when the right to receive dividends is established

Operating lease payments

Payments made under operating leases are recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated statements of comprehensive income as a deduction to the total rental expenses over the term of the lease.

Income tax

Income tax expense is comprised of current tax only.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable in respect of previous years.

The Ministry of Finance issued a regulation on deferred tax differences in May 2010. However, the Taxation Office of Mongolia has not implemented the regulation yet and deferred tax issues have not been incorporated in the Tax Methodology yet due to unfamiliarity of the deferred tax accounting among companies, including commercial banks, as well as the tax authorities. Substantial implementation efforts such as issuance of calculation methodologies, training and discussions with practitioners are required for smooth adoption. BOM is planning to issue guidelines for commercial banks on the accounting for deferred tax assets and liabilities and recognises that current accounting practices for deferred taxes by commercial banks do not comply with IFRS.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

3 Significant accounting policies (continued)

Employee benefits

The Group does not provide severance benefits to its employees except for providing the employer's portion in accordance with statutory social insurance payments to the State Social Insurance Scheme. Contributions made by the Group are recognised as an expense in the consolidated statements of comprehensive income as incurred.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are effective for annual periods beginning after January 1, 2014, and the Group has not early adopted them.

(i) Amendments to IAS 19 Employee Benefits

The amendments clarify that if employees or third parties make contributions meeting certain criteria, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered. The amendments require an entity to consider contributions linked to service when accounting for service cost and defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service on the calculation method of its plans or straight-line basis. These amendments are effective for annual periods beginning on or after July 1, 2014. These amendments are not expected to have significant impact on the consolidated financial statements.

(ii) Amendments to IFRS 8 Operating Segments

The amendments clarify that an entity must disclose the judgements made by management in applying the aggregation criteria. The reconciliation of segment assets to total assets is only required to be disclosed if the assets are reported to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014. These amendments are not expected to have significant impact on the consolidated financial statements.

(iii) Amendments to IFRS 13 Fair Value Measurements

The amendments clarify that short-term receivable and payable which do not have specified interest rate can be measured at original price of the invoice if the discount effect is not material. In addition, the portfolio exception can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. These amendments are effective for annual periods beginning on or after July 1, 2014. The Group is in the process of evaluating the impact of these amendments as of 31 December 2014.

(iv) Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets

The amendments clarify that the accumulated depreciation or amortization on revaluation date is the difference between the gross and net carrying amounts of the asset. These amendments are effective for annual periods beginning on or after July 1, 2014. These amendments are not expected to have significant impact on the consolidated financial statements.

The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are effective for annual periods beginning on or after January, 2016. These amendments are not expected to have significant impact on the consolidated financial statements.

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(v) *Amendments to IAS 24 Related Party Disclosures*

The amendments clarify that an entity or members of an entity which provide key management personnel services to the reporting entity or the parent of the reporting entity are related parties subject to the related party disclosures. These amendments are effective for annual periods beginning on or after July 1, 2014. The Group is in the process of evaluating the impact of these amendments as of 31 December 2014.

(vi) *Amendments to IFRS 3 Business Combinations*

The amendments clarify that joint arrangements, not joint ventures, are outside the scope of IFRS 3. In addition, contingent consideration arrangements which are financial instruments should be classified as liabilities (or equities). All contingent consideration arrangements classified as assets (or liabilities) arising from a business combination should be subsequently measured at fair value through profit or loss. These amendments are effective for annual periods beginning on or after July 1, 2014. These amendments are not expected to have significant impact on the consolidated financial statements.

(vii) *Amendments to IAS 40 Investment Property*

The amendments clarify that if an entity acquires the property with ancillary services, it should treat that transaction as business combination. In addition, IFRS 3 is used to determine if the transaction is the purchase of an asset or business combination. These amendments are effective for annual periods beginning on or after July 1, 2014. These amendments are not expected to have significant impact on the consolidated financial statements.

(viii) *Amendments to IFRS 11 Joint Arrangements*

The amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. These amendments are effective for annual periods beginning on or after January 1, 2016. The Group is in the process of evaluating the impact of these amendments as of 31 December 2014.

(ix) *Amendments to IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

4 Acquisition of Subsidiary

Business combination

On 19 November 2013 the Group obtained control of TDB Media LLC ("TDBM"), a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011 by acquiring additional shares and voting interests in TDBM. As a result, the Group's equity interest in TDBM increased from 49% to approximately 84.4%.

Even though the Group took control of TDBM on 19 November 2013, the Group deemed the acquisition date as 31 December 2013 since there were no significant transactions between the acquisition date and the end of the reporting period. As a result, the Group did not include total comprehensive income of TDBM in the consolidated financial statements as at and for the year ended 31 December 2013.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash	5,240,000
Buildings	6,060,000
Total consideration transferred	<u>11,300,000</u>

The fair value of buildings was based on the market approach.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Intangible assets	389,670
Other assets	987,741
Other liabilities	(321,068)
Total identifiable net assets acquired	<u>10,072,564</u>

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2013 MNT'000
Consideration transferred	11,300,000
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of TDBM	1,575,769
Fair value of pre-existing interest in TDBM	-
Fair value of identifiable net assets	<u>10,072,564</u>
Goodwill	<u>2,803,205</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

4 Acquisition of Subsidiary (continued)

Non-controlling interest

The following table summarises the information relating to non-controlling interest ("NCI") in TDBM.

31 December 2013

(In MNT'000)

	TDB Media LLC
NCI percentage	15.64417%
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Other assets	1,377,411
Liabilities	(321,068)
Net assets	10,072,564
Carrying amount of NCI	1,575,769

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

5 Cash and due from banks

	2014	2013
	MNT'000	MNT'000
Cash on hand	70,182,271	64,232,328
Deposits and placements with banks and other financial institutions	293,571,604	336,990,113
Balances with BOM(*)	690,985,682	689,022,571
	<u>1,054,739,557</u>	<u>1,090,245,012</u>

(*) At 31 December 2014, BOM requires that a minimum 12% of average customer deposits for two weeks (12% at 31 December 2013) must be maintained with BOM. In relation to the daily requirement, the Group also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2014 and 2013, the required reserve amount was MNT 321,032,758 thousand and MNT 355,888,347 thousand, respectively.

6 Investment securities

	2014	2013
	MNT'000	MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	443,430	443,430
Equity securities, at fair value(*2)	78,448,110	3,980,015
Government bond	445,234,481	611,714,016
Residential mortgage-backed securities(*3)	28,375,000	108,475,200
	<u>552,501,021</u>	<u>724,612,661</u>
Held-to-maturity investment securities		
Government bonds	356,231,923	160,500,000
	<u>908,732,944</u>	<u>885,112,661</u>

(*1) Unquoted equity securities represent investments made in unlisted private companies and are recorded at cost as there is no quoted market price in active markets and their fair value cannot be reliably measured.

(*2) For the year ended 31 December 2014, unrealised loss of MNT 11,471,974 thousand arising from changes in the fair value of such investment was recognised directly in equity as other comprehensive income. Also, the Group acquired equity securities, Turquoise Hill Resources Ltd ("TRQ") shares. The carrying amount of TRQ shares was MNT 73,014,794 thousand.

(*3) Residential mortgage-backed securities represent junior notes issued by MIK active one, two and three SPC ("MIK SPCs").

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

7 Investment in associates and joint ventures

	2014 MNT'000	2013 MNT'000
Investment in MIK(*1)	11,476,733	8,679,033
Investment in MG Leasing LLC(*2)	1,695,567	1,736,968
Investment in JC Decaux Mongolia LLC(*3)	1,357,777	-
	<u>14,530,077</u>	<u>10,416,001</u>

(*1) MIK increased paid in capital in March 2014, the Group's ownership interest in MIK decreased to approximately 30.17% due to non-proportionate capital contribution. As a result, the Group recognised gain on disposal of MIK of MNT 1,712,656 thousand. In applying the equity method, the Group used the financial information of MIK as at 31 December 2014. The Group recognised its share of gain of MIK of MNT 1,085,044 thousand and MNT 240,698 thousand in 2014 and 2013, respectively.

(*2) MGLL, the Group owns 55% of the equity interests. However, as decision about relevant activities requires the unanimous consent of the parties sharing control, the Group does not deem MGLL as a subsidiary but as a joint venture. In applying the equity method, the Group used the financial information of MGLL as at 31 December 2014. The Group recognised its share of loss of MGLL of MNT 41,401 thousand and MNT 36,642 thousand in 2014 and 2013, respectively.

(*3) In 2014, the Group entered into a MNT 1,316,003 thousand investment acquiring 49% equity interest in JC Decaux Mongolia LLC ("JCD"). As decision about relevant activities requires the unanimous consent of the parties sharing control, the Group deems JCD as a joint venture. In applying the equity method, the Group used the financial information of JCD as at 31 December 2014, and recognised its share of gain of JCD of MNT 41,774 thousand in 2014.

Condensed financial statements of associates as at 31 December 2014 and 2013, and for the years ended 31 December 2014 and 2013 were as follows:

Investees	2014 MNT'000		2013 MNT'000	
	Asset	Liability	Asset	Liability
MIK	48,743,927	11,023,058	33,579,334	9,482,964
MG Leasing LLC	38,667,409	35,584,559	3,427,503	269,379
JC Decaux Mongolia LLC	2,950,717	179,698	-	-

Investees	2014 MNT'000		2013 MNT'000	
	Operating revenue	Net income	Operating revenue	Net income
MIK	6,707,336	3,596,342	2,594,106	738,552
MG Leasing LLC	1,423,650	(75,274)	288,903	(66,621)
JC Decaux Mongolia LLC	371,448	85,254	-	-

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

8 Loans and advances

	2014 MNT'000	2013 MNT'000
Loans and advances to customers	2,804,731,400	2,525,080,548
Loans to executives, directors and staff	31,199,375	23,518,635
	<u>2,835,930,775</u>	<u>2,548,599,183</u>
Allowance for loan losses	(58,742,342)	(18,042,005)
	<u>2,777,188,433</u>	<u>2,530,557,178</u>

Movements in the allowance for loan losses for the years ended 31 December 2014 and 2013 were as follows:

	2014 MNT'000	2013 MNT'000
At 1 January	18,042,005	13,491,840
Provision for the year, net	40,700,337	4,640,541
Written off	-	(90,376)
At 31 December	<u>58,742,342</u>	<u>18,042,005</u>

In addition, the Group transferred its mortgage loans with carrying amounts of MNT 175,275,267 and MNT 107,993,483 thousand during 2014 and 2013 to MIK SPCs. This transaction qualified for derecognition.

9 Subordinated loans

	2014 MNT'000	2013 MNT'000
UB City Bank	4,000,000	4,000,000
Capitron Bank	-	3,000,000
	<u>4,000,000</u>	<u>7,000,000</u>

The loan to UB City Bank bears a fixed interest of 8% per annum and is to be repaid in full on 25 September 2017.

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31 December 2014 and 2013

10 Property and equipment

Property and equipment as at 31 December 2014 and 2013 were as follows:

31 December 2014
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction- in-progress	Total
At cost/revaluation					
At cost	11,765,120	8,919,007	11,516,392	112,274,587	144,475,106
At revaluation	18,555,196	-	-	-	18,555,196
At 1 January 2014	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Additions	17,143	2,218,719	8,161,836	10,176,853	20,574,551
Disposals	(5,896,963)	(166,941)	(525)	-	(6,064,429)
Write-offs	-	(153,899)	(509,598)	-	(663,497)
Transfers	117,840,869	-	38,417	(117,879,286)	-
Acquisition of subsidiary	-	305,300	-	-	305,300
Revaluation surplus	133,005,806	-	-	-	133,005,806
At 31 December 2014	275,287,171	11,122,186	19,206,522	4,572,154	310,188,033
Measured at:					
Cost	123,726,169	11,122,186	19,206,522	4,572,154	158,627,031
Revaluation	151,561,002	-	-	-	151,561,002
	275,287,171	11,122,186	19,206,522	4,572,154	310,188,033
Accumulated depreciation					
At 1 January 2014	1,644,423	2,558,588	5,529,965	-	9,732,976
Charge for the year	1,050,843	882,413	3,255,498	-	5,188,754
Disposals	-	(125,263)	(291)	-	(125,554)
Write-offs	-	(57,190)	(508,240)	-	(565,430)
Transfers	-	-	-	-	-
Revaluation surplus	(2,084,981)	-	-	-	(2,084,981)
At 31 December 2014	610,285	3,258,548	8,276,932	-	12,145,765
Carrying amounts					
At 31 December 2014	274,676,886	7,863,638	10,929,590	4,572,154	298,042,268

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

10 Property and equipment (continued)
31 December 2013
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction- in-progress	Total
At cost/revaluation					
At cost	31,801,511	5,378,533	8,692,670	74,660,287	120,533,001
At revaluation	18,555,196	-	-	-	18,555,196
At 1 January 2013	50,356,707	5,378,533	8,692,670	74,660,287	139,088,197
Additions	6,060,000	1,285,939	3,221,711	38,580,464	49,148,114
Disposals	-	(145,661)	-	-	(145,661)
Write-offs	-	(91,934)	(413,294)	-	(505,228)
Transfers	(26,096,391)	-	-	(966,164)	(27,062,555)
Acquisition of subsidiary	-	2,492,130	15,305	-	2,507,435
At 31 December 2013	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Measured at:					
Cost	11,765,120	8,919,007	11,516,392	112,274,587	144,475,106
Revaluation	18,555,196	-	-	-	18,555,196
	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Accumulated depreciation					
At 1 January 2013	974,265	2,195,995	4,326,938	-	7,497,198
Charge for the year	1,515,863	552,102	1,611,205	-	3,679,170
Disposals	-	(111,232)	-	-	(111,232)
Write-offs	-	(78,277)	(408,178)	-	(486,455)
Transfers	(845,705)	-	-	-	(845,705)
At 31 December 2013	1,644,423	2,558,588	5,529,965	-	9,732,976
Carrying amounts					
At 31 December 2013	28,675,893	6,360,419	5,986,427	112,274,587	153,297,326

Construction-in-progress was transferred to buildings as the construction of the Group's office building was completed during the fourth quarter of 2014. There were no capitalised borrowing costs related to the acquisition of property and equipment during 2014 and 2013.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

10 Property and equipment (continued)

Details of the latest valuation of buildings appraised by an independent professional valuation company are as follows:

<u>Date of valuation</u>	<u>Description of property</u>	<u>Valuation amount</u>	<u>Basis of valuation</u>
31 October 2008	Buildings	17,076,514	Market value
31 December 2011	Buildings	21,961,090	Market value
30 June 2014	Buildings	29,084,085	Market value
31 December 2014	Buildings	237,888,000	Market value

The following table shows the valuation technique used in measuring the fair value of buildings, as well as the significant unobservable inputs used.

<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between key unobservable inputs and fair value measurement</u>
Market price approach	Average selling price for proxy (unit: MNT'000 per m ²): land ownership: 46 ~ 1,100 buildings: 1,158 ~ 18,000 apartments: 1,573 ~ 2,648	The estimated fair value would increase (decrease) if: Expected market price for proxy land ownership, buildings, apartments were higher(lower);

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

11 Intangible assets and goodwill

	2014	2013
	MNT'000	MNT'000
Cost		
At 1 January	7,276,387	3,271,779
Additions		
Software	993,393	964,803
Goodwill	-	2,803,205
Write-off	-	(153,069)
Acquisition of subsidiary	-	389,669
At 31 December	<u>8,269,780</u>	<u>7,276,387</u>
Amortisation		
At 1 January	3,005,772	2,669,948
Amortisation charge for the year(*)	721,542	488,894
Write-off	-	(153,070)
At 31 December	<u>3,727,314</u>	<u>3,005,772</u>
Carrying amounts		
At 31 December	<u>4,542,466</u>	<u>4,270,615</u>

(*) Amortisation is charged for software only.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

12 Investment property

	2014 MNT'000	2013 MNT'000
At 1 January	33,388,245	-
Reclassification from property and equipment	-	26,216,850
Change in fair value	300,755	7,171,395
At 31 December	<u>33,689,000</u>	<u>33,388,245</u>

The Group reclassified NCP Tower to investment property from property and equipment due to a change in the Group's plan for the future use during the year ended 31 December 2013.

The fair value of investment property was appraised by an independent professional valuation company. The independent appraiser provides the fair value of the Group's investment property portfolio every year.

The fair value hierarchy for investment property has been categorized as level 3 based on the inputs used in the valuation techniques.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	2014 MNT'000	2013 MNT'000
Beginning balance	33,388,245	-
Reclassification from property and equipment	-	26,216,850
Changes in fair value (unrealised)	300,755	7,171,395
Ending balance	<u>33,689,000</u>	<u>33,388,245</u>

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market price approach	Average selling price for proxy buildings MNT 6,210 thousands per m ²	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings were higher(lower)

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

13 Foreclosed real properties

	2014 MNT'000	2013 MNT'000
Industrial buildings	8,674,026	9,678,810
Less: Allowances	(7,653,572)	(3,621,655)
	<u>1,020,454</u>	<u>6,057,155</u>

Properties acquired through foreclosure are initially recognised at fair value, recorded as foreclosed properties and are held for sale. The allowance is subsequently estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and Ministry of Finance. Such a model classifies the Group's foreclosed properties based on time characteristics and makes allowances at the rates of 1%, 5%, 25%, 50% and 100% for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. On 26 August 2014, BOM Provisioning Guidelines revised and requires the Group to recognize 1% (previously 0% was applied) allowance for performing assets created on or after 27 August 2014. During 2014 and 2013, an allowance of MNT 544,869 thousand and MNT 473,649 thousand were written back upon disposition of foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

14 Other assets

	2014 MNT'000	2013 MNT'000
Precious metals	23,396	3,601,016
Accrued interest receivables	64,312,329	47,376,786
Prepayment	28,990,939	7,425,555
Inventory supplies	1,144,697	1,030,271
Spot trading receivables	151,552,920	276,359,629
Derivative assets	59,225,754	64,719,231
Domestic exchange settlement receivables	3,314,679	1,810,216
Other receivables, net	2,454,055	1,408,081
	<u>311,018,769</u>	<u>403,730,785</u>

Other receivables are presented net of impairment losses amounting to MNT 20,089 thousand and MNT 2,830 thousand as at 31 December 2014 and 2013, respectively.

Prepayment as at 31 December 2014 includes the prepaid amount of MNT 23,295,829 to purchase the shares of Mongolian Mining Corporation.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

15 Deposits from customers

	2014 MNT'000	2013 MNT'000
Current accounts	1,004,054,802	824,435,400
Savings deposits	248,055,468	260,411,572
Time deposits	1,256,713,708	1,024,854,327
Other deposits	24,783,023	29,990,850
	<u>2,533,607,001</u>	<u>2,139,692,149</u>

Current accounts and other deposits generally bear no interest. However, for depositors maintaining current account balances above the prescribed limit, interest is provided at rates of approximately 1.43% and 3.21% (2013: 1.35% and 3.84%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.95% and 6.07% (2013: 1.91% and 6.65%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.53% and 12.33% (2013: 5.95% and 11.88%), respectively.

16 Deposits and placements by banks and other financial institutions

	2014 MNT'000	2013 MNT'000
Current accounts deposits:		
Foreign currency deposits	10,530,372	8,099,760
Local currency deposits	288,230	6,252,719
Foreign currency cheques for selling	730,962	316,883
Deposits from banks	108,457,772	157,440,337
	<u>120,007,336</u>	<u>172,109,699</u>

17 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2014 MNT'000	2013 MNT'000
Bank of Mongolia	31-Dec-13	02-Jan-14	12.50%	-	372,650,503
				<u>-</u>	<u>372,650,503</u>

In 2013, the Group entered into repurchase agreement with BOM, the agreement where the Group sold BOM treasury bills and government bonds under repurchase agreement at an aggregate amount of MNT 560,145,000 thousand, at various maturities. The securities sold are collateralised for the payables pertaining to the agreement.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings

	2014 MNT'000	2013 MNT'000
Kreditanstalt fuer Wiederaufbau	7,376,738	8,903,933
World Bank	2,190,033	3,153,755
Asian Development Bank	1,398,355	1,533,152
International Development Association	946,075	849,772
Export-Import Bank of Korea	19,010,350	17,911,647
Export-Import Bank of Republic of China	4,915,210	15,242
Japan International Cooperation Agency	20,145,126	17,719,975
Atlantic Forfaitierungs AG	1,508,480	500,353
SME Fund, Ministry of Labour	56,889,870	63,813,541
Commerzbank AG	32,665,739	27,142,828
ING Bank	1,550,718	8,767,578
Baoshang Bank	1,491,389	1,939,686
Sumitomo Mitsui Banking Corporation	50,901,247	41,342,373
Netherlands Development Finance Company	18,856,000	16,541,000
Mongolian Stock Exchange	1,168,921	1,953,002
China Trade Solutions	-	188,783
Bank of Mongolia, Sub program	253,139,645	381,870,711
Development bank of Mongolia	38,916,400	-
Mortgage Financing Programme by BOM	182,426,909	362,000,000
MG Leasing Corporation	23,494	46,906
Russian Agricultural Bank	16,970,400	14,886,900
Unicredit S.p.A.	-	75,407
TDB Syndicated Facility	151,687,229	131,349,084
Cargill TSF Asia Pte.Ltd	41,045,184	54,585,300
Cargill financial services international, INC	131,992,000	-
Bank of Tokyo-Mitsubishi UFJ	24,217,372	-
Khan bank (syndicated loan source)	45,109,209	-
Other	786,871	-
	<u>1,107,328,964</u>	<u>1,157,090,928</u>

Kreditanstalt fuer Wiederaufbau ("KfW")

In 2002, the Group entered into a Loan and Financing Agreement with KfW, under which the Group can borrow up to EUR 4,345,981 from KfW via BOM as a Programme-Executing Agency for mainly providing financing to various small and medium enterprises customers at preferential interest rates. The outstanding KfW loan amounted to EUR 3,216,563 (MNT 7,376,738 thousand) and EUR 3,912,733 (MNT 8,903,933 thousand) at 31 December 2014 and 2013, respectively. The loan matures in June 2042 and bears interest at a fixed rate of 1.25% per annum, of which 0.75% is payable to KfW and 0.50% to BOM. Principal repayment is on a semi-annual basis, and the repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

World Bank

- (a) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 512,000 (MNT 965,427 thousand) and USD 804,800 (MNT 1,331,220 thousand) at 31 December 2014 and 2013, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.
- (b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Group can also borrow amounts in various currencies including in MNT up to Special Drawing Rights (SDR) 6,250,000 from the World Bank via the Ministry of Finance to finance specific investment projects through the provision of sub-loans. The outstanding World Bank MNT loan amounted to approximately MNT 838 million and MNT 1,450 million at 31 December 2014 and 2013, respectively. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.
- (c) In 2006, the Group obtained a USD loan in the amount of USD 300,000 from the World Bank under the World Bank Training Assistance Programme loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development programme, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this programme amounted to USD 205,031 (MNT 386,606 thousand) and USD 225,091 (MNT 372,323 thousand) at 31 December 2014 and 2013, respectively. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in May 2025.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

Asian Development Bank ("ADB")

ADB Loan is comprised of the following loans:

- (a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information systems. The outstanding loan amounted to USD 76,026 (MNT 143,355 thousand) and USD 80,498 (MNT 133,152 thousand) at 31 December 2014 and 2013, respectively. The loan matures in 2031 and bears interest at a fixed rate of 1% per annum and is repayable in 30 annual installments which commenced in 2002.
- (b) In 2011, the Group entered into a Finance Agreement with ADB, under which the Group can borrow up to USD 11,000,000 from ADB via the Ministry of Finance to provide loans exclusively to customers who need to finance the cost of goods, works, and consulting services required to carry out Value Chain Development ("VCD") subprojects related to the development of agriculture and rural areas. The sub-loan matures in June 2018 and bears interest at a fixed rate of up to 12% per annum. The Group can also borrow in MNT. The outstanding MNT loan amounted to approximately MNT 1,255 million and MNT 1,400 million as at 31 December 2014 and 2013, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

International Development Association ("IDA")

In 1998, the Group obtained a USD loan in the amount of USD 600,000 from IDA to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), under which NBR had transferred operational knowhow and technical skills to the Group. The outstanding IDA loan amounted to USD 501,737 (MNT 946,075 thousand) and USD 513,737 (MNT 849,772 thousand) at 31 December 2014 and 2013, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective July 2012, the maximum amount of facility increased to USD 30,000,000. The outstanding borrowings under this line of credit agreement amounted to USD 10,081,857 (MNT 19,010,350 thousand) and USD 10,828,636 (MNT 17,911,647 thousand) at 31 December 2014 and 2013, respectively. This line of credit expires in December 2015, and the interest of this particular loan varies with each drawdown, which is determined by KEXIM.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

The Export-Import Bank of Republic of China ("TEXIM")

In 2004, the Group entered into a Relending facility with TEXIM under which the Group could borrow up to USD 6,000,000 for relending purposes to finance customers who purchase machinery and other manufactured goods produced in Taiwan. The outstanding borrowings under agreement amounted to USD 2,606,709 (MNT 4,915,210 thousand) and USD 9,215 (MNT 15,242 thousand) at 31 December 2014 and 2013, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1.25% per year. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Japan International Cooperation Agency ("JICA")

JICA (formerly "Japan Bank for International Cooperation") Loan comprises the following loans:

- (a) In 2006, the Group entered into a Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 2,981,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development and Environmental Protection. The outstanding USD loan amounted to USD 224,500 (MNT 423,317 thousand) and USD 290,500 (MNT 480,516 thousand) at 31 December 2014 and 2013, respectively. The loan bears interest at six-month LIBOR USD rate plus a margin of 1% per annum. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.
- (b) Under the Loan Financing Agreement as described in (a) above, the outstanding MNT loan amounted to approximately MNT 2,668 million and MNT 1,930 million at 31 December 2014 and 2013, respectively. The MNT loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.
- (c) In 2011, the Group entered into another Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 5,000,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the second phase of developing SME Development and Environmental Protection purposes. The outstanding loans amounted to approximately USD 930,000 (MNT 1,753,608 thousand) and MNT 15,301 million at 31 December 2014, and USD 930,000 (MNT 1,538,313 thousand) and MNT 13,772 million at 31 December 2013. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Atlantic Forfaitierungs AG ("AF")

In 2009, the Group entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. The outstanding USD loan amounted to USD 800,000 (MNT 1,508,480 thousand) and USD 302,493 (MNT 500,353 thousand) at 31 December 2014 and 2013, respectively. Interest is payable on a semi-annual basis, and the loan matures in October 2016.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

SME Fund, MoFALI and Ministry of Labour

SME Fund comprises the following loans:

- (a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30 billion for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60 billion and MNT 150 billion, respectively. This credit facility expires in Jun 2016 and bears interest at a fixed rate of 1.2% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 12,043 million and MNT 15,697 million at 31 December 2014 and 2013, respectively. In 2013, the Group signed a new facility agreement with the Ministry of Labor within the above mentioned credit program. In this facility agreement, Development Bank of Mongolia participated in the program and financed a MNT 1,676 million and MNT 3,173 million sub loan to the Group in 2014 and 2013, respectively. This credit facility expires in December 2017 and bears interest at a fixed rate of 1.8% per annum depending on the finances of Development Bank of Mongolia. The outstanding borrowings under this credit facility amounted to MNT 4,101 million and MNT 3,122 million at 31 December 2014 and 2013, respectively.
- (b) In October 2011, the Group signed a second credit facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of Wool and Cashmere sector development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 150 billion for this facility. This credit facility agreement expires in August 2017 and bears interest at a fixed rate of 0.6% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 37,111 million and MNT 44,995 million at 31 December 2014 and 2013, respectively. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.
- (c) In August 2014, the Group entered into a loan agreement with the Ministry of Labour for the purpose of SME development within the encouraging export and substituting import program (888 Project). Projects with amount is less than MNT 2.0 billion were implemented by SME Fund, Ministry of Labour and financed by Development bank of Mongolia. The outstanding borrowings amounted to approximately MNT 3,634 million at 31 December 2014. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Commerzbank AG

In 2011, the Group entered into an Uncommitted Bilateral Trade Finance Facility Master Agreement with Commerzbank AG for the purpose of relending to customers to finance import and export transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this facility agreement, the Group has outstanding loans of USD 14,859,416 (MNT 28,018,915 thousand) and EUR 2,026,208 (MNT 4,646,824 thousand) at 31 December 2014, and USD 13,299,538 (MNT 21,998,766 thousand) and EUR 2,260,500 (MNT 5,144,062 thousand) at 31 December 2013. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

ING Bank

In 2011, the Group obtained a trade finance line with ING Bank under which the Group could borrow up to EUR 15,000,000 for relending purposes or confirmations of letter of credit(LC). The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this trade finance facility, the Group has outstanding loans of USD 822,400 (MNT 1,550,718 thousand) and USD 2,469,929 (MNT 4,085,510 thousand) at 31 December 2014 and 2013, respectively and EUR 2,057,482 (MNT 4,682,068 thousand) at 31 December 2013. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Baoshang Bank

The Group entered into various facility agreements with Baoshang Bank, under which the Baoshang Bank loans were extended to other borrowers.

The Group obtained a CNY loan in the amount of CNY 4,912,832 (MNT 1,491,389 thousand) and CNY 7,108,203 (MNT 1,939,686 thousand) at 31 December 2014 and 2013. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Sumitomo Mitsui Banking Corporation ("SMBC")

In March 2012, the Group entered into a Refinancing Letter of Credit Facilities Agreement with SMBC under which the Group can borrow up to USD 55,000,000 for further relending to customers. The maturity dates and interest for the facilities vary in accordance with the tenor of each advance, up to 12 and 18 months. The outstanding SMBC loan amounted to USD 21,524,710 (MNT 40,586,993 thousand) and JPY 655 million (MNT 10,314,254 thousand) at 31 December 2014 and USD 14,675,112 (MNT 24,274,104 thousand) and JPY 1,087 million (MNT 17,068,269 thousand) at 31 December 2013. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Netherlands Development Finance Company ("FMO")

In June 2012, the Group entered into a Senior Term Facility Agreement with FMO under which the Group can borrow up to USD 10,000,000 which shall be used for relending purposes for small and medium entities. The outstanding USD loan amounted to USD 10,000,000 (MNT 18,856,000 thousand) and USD 10,000,000 (MNT 16,541,000 thousand) at 31 December 2014 and 2013. The Group has an option to pay interest at a fixed or floating interest rate. The facility is repayable semi-annually until final repayment due in April 2018.

Mongolian Stock Exchange syndicated facility

The Group arranged a syndicated Loan to Mongolian Stock Exchange with participation of Mongolian commercial banks. At 31 December 2014 and 2013, the Group has arranged the following loans under this facility:

- (a) Total participation of commercial banks loan amount is USD 619,920 (MNT 1,168,921 thousand) and USD 1,180,704 (MNT 1,953,002 thousand) at 31 December 2014 and 2013 respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.
- (b) This loan matures in May 2015 and bears interest at a fixed rate of 6.5% per annum.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

China Trade Solutions

The Group entered into a Short-Term Trade Finance Facilities Agreement with China Trade Solutions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding China Trade Solutions loan amounted to USD 114,131 (MNT 188,783 thousand) at 31 December 2013. This loan was repaid in full in April 2014.

Bank of Mongolia, Sub program

Since 2012, the Group has continued to act as a participant bank within the relending agreement with the Bank of Mongolia Midterm Sub-programme named "To stabilise price of basic commodities and products" consists of four sub programs: i) price stability of staple food; ii) fuel retail price stability; iii) reducing the cost of imported consumption goods; and iv) promoting the construction sector and achieving stability of housing prices. In 2014, the Group signed a new credit facility agreement with the Bank of Mongolia for the purpose of Cashmere Industry support. This credit facility agreement bears interest at a fixed rate of 6.0% to 9.5% per annum with varying repayment dates depending on the draw date. Within the above sub programs total of over 51 borrowers have successfully taken out loans at flexible conditions that were provided by the programme; the outstanding loan amounted to MNT 253 billion and 382 billion at 31 December 2014 and 31 December 2013, respectively. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Development bank of Mongolia

- (a) In July 2014, the Group entered into a credit facility loan agreement with the Development bank of Mongolia for the purpose of supporting raw leather purchase and commodity manufacturing. This credit facility bears interest at a fixed rate of 5.0% per annum with varying repayment dates depending on the draw date. Within this program, 6 sub borrowers were financed successfully in 2014. The outstanding borrowings under this credit facility amounted to MNT 2,830 million at 31 December 2014. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.
- (b) In July 2014, the Group entered into a loan agreement with the Development bank of Mongolia for the purpose of larger project support within the encouraging export and substituting import program (888 Project). Projects with amount is more than MNT 2.0 billion were implemented and financed by Development bank of Mongolia. The outstanding borrowings amounted to MNT 36,086 million at 31 December 2014. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Mortgage Financing Programme by BOM

In 2013, the Group entered into credit facility loan agreement titled "Mortgage financing from Bank of Mongolia provided to banks" with Bank of Mongolia. The intended purpose is to support the middle class and support the long-term sustainable economic growth by increasing the savings of the middle class. The outstanding Bank of Mongolia loan amounted to MNT 182 billion and MNT 362 billion at 31 December 2014 and 2013 respectively. The loan bears interest at a fixed rate of 4.00% per annum with varying repayment dates depending on the draw date.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

MG Leasing Corporation

In September 2013, the Group entered into a USD 1,000,000 Facility Agreement with MG Leasing Corporation under which the Group utilizes the facility to on-lend the proceeds to Mongolian knitting companies which are purchasing machines from Shima Seiki MFG Ltd. with the final maturity of existing loan in September 2015. The outstanding loan amounted to USD 12,460 (MNT 23,494 thousand) and USD 28,357 (MNT 46,906 thousand) at 31 December 2014 and 2013, respectively.

Russian Agricultural Bank (RHB)

RHB approved a trade finance limit in 2009, for the purpose of relending to the customer. In August 2013 and January 2014, the Group entered into Loan Agreement of USD 9 million and USD 9 million which matures in August 2014 and January 2015, respectively. The outstanding loan amounted to USD 9,000,000 (MNT 16,970,400 thousand) and USD 9,000,000 (MNT 14,886,900 thousand) at 31 December 2014 and 2013, respectively.

UniCredit S.p.A.

In 2012, the Group obtained a trade finance facility line available by confirmation of letters of credit(LC) and LC refinancing from UniCredit S.p.A. in Italy. In addition to this line, UniCredit S.p.A. provided the Group an LC post-shipment financing, which was granted to a confirmed letter of credit available for sight payment in favor of the Italian beneficiary. This post-shipment financing is for financing up to 100% of the supply of goods. The loan of EUR 33,136 (MNT 75,405 thousand) was fully repaid in July 2014.

TDB Syndicated Facility

In September 2013, the Group entered into A/B Syndicated Term Facility Agreement with Netherlands Development Finance Company (FMO). The syndicated term facility of USD 82,000,000 comprised of development tranche ('A' loan) of USD 35,000,000 arranged by FMO and joined by International Investment Bank and of commercial tranche ('B' loan) of USD 47,000,000 arranged by ING Bank N.V. and TDB Capital LLC. The 'B' loan participations were received from AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group. The proceeds of the Facility will be used to finance general funding requirements of TDB including on-lending to its customers. The principal is payable in accordance with the facility agreement and the interest is repayable semi-annually until final repayment due in September 2018. The rate of interests on each loan is the percentage rate per annum, which is the aggregate of the applicable margin and LIBOR. The outstanding loan amounted to USD 80,445,073 (MNT 151,687,229 thousand) and USD 79,408,188 (MNT 131,349,084 thousand) at 31 December 2014 and 2013 respectively.

As at 31 December 2014, the company was not in compliance with certain financial covenants as prescribed in the A/B Syndicated Term Facility agreement. Subsequent to year end, the lenders retroactively waived compliance with the covenants and the covenants were modified as agreed to by the company and its lenders.

Cargill TSF Asia Pte. Ltd

In October 2013, the Group entered into a trade related loan agreement under which the Group financed import of goods amounted to USD 21,767,705 (MNT 41,045,184 thousand) and USD 33,000,000 (MNT 54,585,300 thousand) at 31 December 2014 and 2013, respectively. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

18 Borrowings (continued)

Cargill financial services international, INC

In September 2014 and December 2014, the Group entered into a Trade related Loan Agreement under which the Group for financing of import of goods for the total amount of USD 45,000,000 and USD 25,000,000 with tenor of 1 year and 2 years respectively. The outstanding loan amounted to USD 70,000,000 (MNT 131,992,000 thousand) at 31 December 2014.

Bank of Tokyo-Mitsubishi UFJ

In March 2014, the Group obtained USD 25,000,000 trade finance facility for LC confirmation and LC refinancing for its customers business. The outstanding loan amounted to USD 9,185,106 (MNT 17,319,437 thousand) and JPY 438 million (MNT 6,897,935 thousand) as at 31 December 2014. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The loan bears interest rate at a fixed rate of 2.81% per annum.

Khan bank (syndicated loan source)

In September 2014, The Group entered into a USD 25,000,000 loan Agreement with Khan bank. The outstanding loan amounted to USD 23,923,000 (MNT 45,109,209 thousand) at 31 December 2014. In 2014, the Group lent a loan to our customer and Khan bank joined with us on this loan. This borrowing is a syndicated loan source co-lent with Khan bank to our customer. The facility is repayable monthly until final repayment due in August 2015.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

19 Debt securities issued

	2014 MNT'000	2013 MNT'000
Debt securities issued, at amortised cost	741,354,845	460,563,148

On 20 September 2012, the Group issued USD 300,000,000 senior notes due on 20 September 2015 at a price of 99.676% under its USD 700,000,000 Euro Medium Term Note ("EMTN") Programme which was launched on 13 October 2012. These bonds bear interest at 8.5% per annum payable semi-annually.

On 21 January 2014, the Group issued CNY 700,000,000 senior notes due on 21 January 2017 at a price of 99.367% under its USD 700,000,000 Euro Medium Term Note ("EMTN") Programme which was launched on 13 October 2012. These bonds bear interest at 10.0% per annum payable semi-annually.

During 2014 and 2013, the respective debt securities accreted by MNT 4,371,907 thousand and MNT 3,330,660 thousand, respectively, using the effective interest method.

20 Subordinated debt securities issued

	2014 MNT'000	2013 MNT'000
Subordinated debt, at amortised cost	75,351,569	66,036,156

On 16 November 2010, the Group issued USD 25,000,000 subordinated notes due on 17 November 2015 at a price of 99.999% under its USD 300,000,000 EMTN Programme which was launched on 9 October 2010. These bonds bear interest at 12.5% per annum payable semi-annually. On 24 May 2011 and 27 June 2012, the Group additionally issued USD 5,000,000 and USD 10,000,000 subordinated notes due on 25 May 2016 and 6 June 2017 at face value, both of which are payable semi-annually, respectively. The Group is also obligated to bear withholding tax of 5% of the amount of interest expenses paid to certain investors on its subordinated notes in accordance with the double tax treaty between Mongolia and Singapore, and these additional cash outflows effectively increase actual interest rates for the notes. The above liabilities will, in the event of the winding-up of the Group, be subordinated to the claims of depositors and all other creditors of the issuer.

During 2014 and 2013, the respective debt securities accreted by MNT 73,305 thousand and MNT 52,176 thousand, respectively, using the effective interest method.

21 Other liabilities

	2014 MNT'000	2013 MNT'000
Accrued interest payables	77,929,712	46,808,093
Delay on clearing settlement	5,240,100	7,111,587
Spot trading payables	151,588,485	276,314,010
Derivative liabilities	27,643,093	39,744,994
Finance lease payable	2,547,397	494,941
Domestic exchange obligation payables	4,017,091	2,821,205
Others	10,185,280	5,929,867
	279,151,158	379,224,697

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

22 Share capital

	Number of ordinary shares		2014	2013
	2014	2013	MNT'000	MNT'000
At 1 January	3,305,056	3,305,056	16,525,280	16,525,280
Issued during the year	-	-	-	-
At 31 December	<u>3,305,056</u>	<u>3,305,056</u>	<u>16,525,280</u>	<u>16,525,280</u>

At 31 December 2014 and 2013, 3,305,056 shares were issued and outstanding out of a total 4,000,000 authorised shares. All issued shares were fully paid and have a par value of MNT 5,000 as at 31 December 2014 and 2013.

23 Treasury shares

	2014	2013
	MNT'000	MNT'000
At 1 January	2,620,626	2,620,626
Sale of treasury shares	-	-
At 31 December	<u>2,620,626</u>	<u>2,620,626</u>

The outstanding treasury shares were 126,015 shares, representing approximately 3.81% of the total issued and outstanding ordinary shares as at 31 December 2014 and 2013.

24 Accumulated other comprehensive income

	2014		
	MNT'000		
	Net change in fair value of available-for-sale financial assets	Revaluation reserves	Total
Beginning balance	14,153,606	18,555,196	32,708,802
Changes in fair value	(30,923,422)	135,090,787	104,167,365
Changes due to disposal	(10,717,881)	-	(10,717,881)
Ending balance	<u>(27,487,697)</u>	<u>153,645,983</u>	<u>126,158,286</u>
	2013		
	MNT'000		
	Net change in fair value of available-for-sale financial assets	Revaluation reserves	Total
Beginning balance	25,807,646	18,555,196	44,362,842
Changes in fair value	12,433,069	-	12,433,069
Changes due to disposal	(24,087,109)	-	(24,087,109)
Ending balance	<u>14,153,606</u>	<u>18,555,196</u>	<u>32,708,802</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

25 Interest income

	2014 MNT'000	2013 MNT'000
Loans and advances	341,764,426	245,951,452
Investment securities	92,676,705	67,687,193
Deposits and placements with banks and other financial institutions	9,647,043	7,100,330
Bills purchased under resale agreements	28,466	15,174
Subordinated loans	557,212	684,444
	<u>444,673,852</u>	<u>321,438,593</u>

26 Interest expense

	2014 MNT'000	2013 MNT'000
Deposits	158,385,845	112,716,592
Borrowings	57,008,785	23,632,501
Bills sold under repurchase agreements	1,727,844	367,689
Debt securities issued	70,632,094	56,922,469
Subordinated debt securities issued	8,734,761	7,052,930
	<u>296,489,329</u>	<u>200,692,181</u>

27 Net fee and commission income

	2014 MNT'000	2013 MNT'000
Fee and commission income		
Wire transfer	5,925,994	5,186,029
Card service	9,544,590	8,132,016
Loan related service	12,897,421	8,582,285
Others	2,340,987	2,319,933
Total fee and commission income	<u>30,708,992</u>	<u>24,220,263</u>
Fee and commission expenses		
Card service expense	2,470,633	1,826,902
Others	874,221	867,555
Total fee and commission expenses	<u>3,344,854</u>	<u>2,694,457</u>
Net fee and commission income	<u>27,364,138</u>	<u>21,525,806</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

28 Other operating income, net

	2014 MNT'000	2013 MNT'000
Foreign exchange gain, net	11,644,029	32,411,745
Precious metal trading gain, net	47,991	1,217,060
Gain on disposition of securities	8,051,659	27,696,971
Valuation gain on investment property	300,755	7,171,395
Gain on disposition of property and equipment	7,840,637	720
Others	2,997,919	186,875
	<u>30,882,990</u>	<u>68,684,766</u>

29 Operating expenses

	2014 MNT'000	2013 MNT'000
Personnel expense	27,060,835	18,558,043
Depreciation on property and equipment (note 10)	5,188,754	3,679,170
Amortisation of intangible assets (note 11)	721,542	488,894
Advertising and public relations	6,244,215	3,639,704
Rental expenses	3,785,370	2,790,943
Professional fees	2,050,790	1,299,978
Technical assistance and foreign bank remittance fees	2,859,663	870,112
Write-off of property and equipment	6,313	18,772
Insurance	9,168,938	4,075,927
Business travel expenses	1,223,971	797,023
Cash handling	832,087	949,888
Stationary and supplies	701,350	611,870
Communication	4,141,519	2,998,039
Training expenses	334,789	296,530
Utilities	531,416	429,921
Repairs and maintenance	317,270	305,747
Security	184,077	140,361
Meals and entertainment	788,065	678,216
Transportation	365,144	339,884
IT maintenance	1,272,486	940,518
Others(*)	1,007,350	567,811
	<u>68,785,944</u>	<u>44,477,351</u>

(*) Others includes costs incurred for loan collections, cleaning and other miscellaneous administrative expenses.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

30 Provision for impairment losses

	2014 MNT'000	2013 MNT'000
Provision for impairment losses for loans	(40,700,337)	(4,640,541)
Provision for impairment losses for other assets and foreclosed real properties	(4,049,176)	(3,615,142)
	<u>(44,749,513)</u>	<u>(8,255,683)</u>

31 Leases

The Group leases some of its branch offices under various lease agreements. Minimum lease commitments that the Group will pay under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2014 and 2013 were as follows:

	2014 MNT'000	2013 MNT'000
Within a year	2,670,607	2,330,442
1 – 5 years	2,559,754	2,558,621
Thereafter	-	-
	<u>5,230,361</u>	<u>4,889,063</u>

32 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2014 MNT'000	2013 MNT'000
Income tax expense – current year	474,447	19,164,321

Reconciliation of effective tax expense:

	2014 MNT'000	2013 MNT'000
Profit before tax	93,981,611	158,428,006
Tax at statutory income tax rate (*1)	23,045,403	39,157,002
Tax effect of non-deductible expense	3,021,181	486,895
Tax effect of non-taxable income	(25,714,938)	(20,304,258)
Tax effect of income taxable on special tax rate (*2)	368,361	-
Effect of tax rates in subsidiaries	(237,764)	(172,906)
Other	(7,796)	(2,412)
	<u>474,447</u>	<u>19,164,321</u>

(*1) Pursuant to Mongolian Tax Laws, the Group is required to pay Government Income Tax at the rate of 10% of the portion of taxable profit up to MNT 3 billion and 25% of the portion of taxable profits in excess of MNT 3 billion.

(*2) According to Mongolian Tax Laws, the Company is required to pay the special tax for certain type of taxable income.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

33 Dividends

There were no dividends declared for the years ended 31 December 2014 and 2013.

34 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months. Cash and cash equivalents reported in the consolidated statements of cash flows for the years ended 31 December 2014 and 2013 were as follows:

	2014 MNT'000	2013 MNT'000
	<hr/>	<hr/>
Cash and due from banks (note 5)	1,054,739,557	1,090,245,012
Balances with BOM	(690,985,682)	(689,022,571)
	<hr/>	<hr/>
Cash and cash equivalents	<u>363,753,875</u>	<u>401,222,441</u>

Details of significant non-cash activities for the years ended 31 December 2014 and 2013 were as follows:

	2014 MNT'000	2013 MNT'000
	<hr/>	<hr/>
Investment properties transferred from property and equipment	-	26,216,850
Valuation gain on available-for-sale financial assets	41,641,303	11,654,040
Revaluation of property and equipment	135,090,787	-

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

35 Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, operating segments, is based on the Group's management and internal reporting structure.

Operating segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

Operating segments

The Group comprises the following main operating segments:

- *Corporate Banking* Includes loans, deposits and other transactions and balances with corporate customers. The Group classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3,000,000 thousand, or the borrower's sales amount is greater than MNT 6,000,000 thousand.
- *SME Banking* Includes loans, deposits and other transactions and balances with SME customers. The Group classifies its customer as SME Banking customer, where the loan amount is between MNT 350,000 thousand and MNT 3,000,000 thousand, or the borrower's sales amount is between MNT 1,500,000 thousand to MNT 6,000,000 thousand.
- *Retail Banking* Includes loans, deposits and other transactions and balances with retail customers and card customers. The Group classifies its customer as Retail Banking customer, where the loan amount is less than MNT 350,000 thousand, and the borrower's sales amount is less than MNT 1,500,000 thousand.
- *Investment and International Banking* Includes the Group's trading and corporate finance activities.
- *Treasury* Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Group's funds management activities.
- *Others* Includes Headquarter operations and central shared services operation that manages the Group's premises and certain corporate costs.

In 2014, The Group changed its criteria for determining operating segments. Both loan amount and borrower's sales amount were considered in 2014 while only loan amount was considered in 2013. In addition, threshold for the loan amount criteria has changed from between MNT 350,000 thousand or USD 300,000, to MNT 1,000,000 thousand to between MNT 350,000 thousand to MNT 1,500,000 thousand. The Group applied this change retrospectively, and accordingly restated the comparative segment reporting information as at and for the year ended 31 December 2013.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

35 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2014	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	239,486,919	18,366,100	(11,469,820)	(93,603,420)	25,356,953	(29,952,209)	148,184,523
Net fee and commission income	8,938,987	245,049	17,105,709	73,655	239,649	761,089	27,364,138
Other operating income (expenses)	-	-	4,194,468	-	13,769,374	12,919,148	30,882,990
Intersegment revenue (expenses)	<u>(135,551,603)</u>	<u>(5,087,231)</u>	<u>55,680,164</u>	<u>83,875,072</u>	<u>(37,181,921)</u>	<u>38,265,519</u>	<u>-</u>
Total segment revenue (expenses)	<u>112,874,303</u>	<u>13,523,918</u>	<u>65,510,521</u>	<u>(9,654,693)</u>	<u>2,184,055</u>	<u>21,993,547</u>	<u>206,431,651</u>
Operating expenses	(682,433)	(371,810)	(30,100,114)	(1,813,602)	(6,730,336)	(29,087,649)	(68,785,944)
Share of profit of an associate	-	-	-	-	-	1,085,417	1,085,417
Provision for impairment losses	<u>(38,334,021)</u>	<u>(2,981,907)</u>	<u>(3,419,844)</u>	<u>-</u>	<u>-</u>	<u>(13,741)</u>	<u>(44,749,513)</u>
Profit (loss) before tax	<u>73,857,849</u>	<u>10,170,201</u>	<u>31,990,563</u>	<u>(11,468,295)</u>	<u>(4,546,281)</u>	<u>(6,022,426)</u>	93,981,611
Income tax expense							(474,447)
Non-controlling interests							<u>(87,115)</u>
Net profit for the year							<u>93,420,049</u>
Segment assets	<u>2,101,893,175</u>	<u>135,578,318</u>	<u>623,012,877</u>	<u>-</u>	<u>1,464,659,846</u>	<u>1,088,036,100</u>	<u>5,413,180,316</u>
Segment liabilities	1,421,745	-	1,986,792,822	1,094,062,698	1,085,244,630	689,278,978	4,856,800,873
Unallocated liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>361,331</u>	<u>361,331</u>
Total liabilities	<u>1,421,745</u>	<u>-</u>	<u>1,986,792,822</u>	<u>1,094,062,698</u>	<u>1,085,244,630</u>	<u>689,640,309</u>	<u>4,857,162,204</u>
Depreciation and amortisation	(14,800)	-	(2,266,340)	(5,337)	(11,180)	(3,612,639)	(5,910,296)
Capital expenditures	9,653	-	2,645,202	71,854	21,424	18,819,811	21,567,944

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

35 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2013	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	152,319,237	16,789,969	(1,708,997)	(60,291,014)	32,502,253	(18,865,036)	120,746,412
Net fee and commission income	5,809,919	126,820	14,262,019	11,803	138,082	1,177,163	21,525,806
Other operating income (expenses)	1,075	286	9,293,237	98,168	24,279,396	35,012,604	68,684,766
Intersegment revenue (expenses)	<u>(81,709,447)</u>	<u>(4,556,591)</u>	<u>39,484,792</u>	<u>57,080,726</u>	<u>(41,064,059)</u>	<u>30,764,579</u>	-
Total segment revenue (expenses)	<u>76,420,784</u>	<u>12,360,485</u>	<u>61,331,050</u>	<u>(3,100,317)</u>	<u>15,855,671</u>	<u>48,089,311</u>	<u>210,956,984</u>
Operating expenses	(537,341)	(292,759)	(17,188,443)	(1,102,219)	(2,959,797)	(22,396,792)	(44,477,351)
Share of profit of an associate	-	-	-	-	-	204,056	204,056
Reversal of (provision for) impairment losses	<u>(5,021,024)</u>	<u>(521,969)</u>	<u>(3,468,590)</u>	-	-	<u>755,900</u>	<u>(8,255,683)</u>
Profit (loss) before tax	<u>70,862,419</u>	<u>11,545,756</u>	<u>40,674,017</u>	<u>(4,202,536)</u>	<u>12,895,874</u>	<u>26,652,476</u>	158,428,006
Income tax expense							(19,164,321)
Net profit for the year							<u>139,263,685</u>
Segment assets	<u>1,903,006,763</u>	<u>94,070,623</u>	<u>599,082,113</u>	-	<u>1,455,038,895</u>	<u>1,072,876,584</u>	<u>5,124,074,978</u>
Segment liabilities	4,602,069	-	1,657,426,742	660,273,560	1,738,707,746	686,357,164	4,747,367,281
Unallocated liabilities	-	-	-	-	-	7,646,233	7,646,233
Total liabilities	<u>4,602,069</u>	-	<u>1,657,426,742</u>	<u>660,273,560</u>	<u>1,738,707,746</u>	<u>694,003,397</u>	<u>4,755,013,514</u>
Depreciation and amortisation	(16,500)	-	(1,914,829)	(4,816)	(9,216)	(2,222,702)	(4,168,063)
Capital expenditures	26,241	-	3,430,697	7,912	18,162	49,527,009	53,010,021

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

36 Significant transactions and balances with related parties

The following entities are considered as related parties of the Group:

- | | |
|---|--|
| • <i>UB City Bank and its subsidiary</i> | The Group's chairman is a member of the board of directors of UB City Bank. |
| • <i>TDB Securities</i> | The Group's chairman wholly owned the TDB Securities. |
| • <i>Capitron Bank</i> | Certain key management of the Group is a shareholder of Capitron Bank. |
| • <i>Mongolia Mortgage Corporation LLC ("MIK")</i> | The Group holds approximately 30.17% equity interest in MIK as at 31 December 2014. (note 7) |
| • <i>Mongolian General Leasing LLC and its subsidiary</i> | The Group holds 55% equity interest in Mongolian General Leasing LLC as at 31 December 2014. |
| • <i>JCDecaux Mongolia LLC</i> | The Group holds 49% equity interest in JCDecaux Mongolia LLC as at 31 December 2014. |

The Group's executive officers and their immediate relatives are also considered as the Group's related parties.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

36 Significant transactions and balances with related parties (continued)

Significant transactions and balances with related parties as at and for the years ended 31 December 2014 and 2013 were as follows:

	2014 MNT'000	2013 MNT'000
UB City Bank and its subsidiary:		
<i>For the year ended 31 December</i>		
Interest income	9,592,505	7,840,065
Interest expense	(3,126,023)	(747,770)
Net fee and commission income	(37)	(33)
<i>As at 31 December</i>		
Deposits and placements with banks and other financial institutions	94,268,112	174,640,914
Deposits and placements by banks and other financial institutions	9,145,160	108,270,500
Loans and advances	11,030,760	9,924,600
Subordinated loans (note 9)	4,000,000	4,000,000
Accrued interest income	51,625	47,255
Accrued interest expense	18,040	33,208
Current account	12,363,860	-
Capitron Bank:		
<i>For the year ended 31 December</i>		
Interest income	359,583	383,960
Interest expense	(116,467)	(41,559)
<i>As at 31 December</i>		
Deposits and placements with banks and other financial institutions	-	6,000,000
Deposits and placements by banks and other financial institutions	2,394,712	2,100,707
Subordinated loans (note 9)	-	3,000,000
Accrued interest income	2,397	126,260
Accrued interest expense	38,971	38,221
Current account	470,123	-

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

36 Significant transactions and balances with related parties (continued)

	2014 MNT'000	2013 MNT'000
MIK:		
<i>For the year ended 31 December</i>		
Interest income	2,550,045	136,411
Interest expense	-	(107,952)
<i>As at 31 December</i>		
Investment securities (note 6)	28,375,000	108,475,200
Accrued interest income	345,784	136,411
TDB Securities:		
<i>During the year ended 31 December</i>		
Interest income	463,543	777,345
<i>As at 31 December</i>		
Loans and advances	-	8,270,500
Accrued interest income	-	85,002
TDB Leasing		
<i>During the year ended 31 December</i>		
Net fee and commission income	523,370	203,527
Interest income	47,352	-
Interest expense	(184,057)	(96,560)
<i>As at 31 December</i>		
Other assets	127,500	153,445
Deposit placements by banks and other financial institutions	2,376,734	3,256,655
Loans and advances	549,344	-
Accrued interest income	3,973	-
Lease payables	2,462,840	-
JCDcaux Mongolia LLC		
<i>During the year ended 31 December</i>		
Other operating income, net	(1,469,925)	-
Executive officers:		
<i>During the year ended 31 December</i>		
Interest income	605,842	493,546
<i>As at 31 December</i>		
Loans and advances	7,719,313	6,508,359
Accrued interest income	26,771	24,647

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

36 Significant transactions and balances with related parties (continued)

The loans to executive officers are included in loans and advances of the Group. Interest rates charged on mortgage loans and other loans extended to executive officers are less than would be charged in an arm's length transaction. The mortgages granted are secured by the properties of the respective borrowers.

Total remuneration and employees benefit paid to the executive officers and directors for the years ended 31 December 2014 and 2013 amounted to MNT 5,315,930 thousand and MNT 3,735,260 thousand, respectively.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

37 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2014 and 2013 were summarised as follows:

(In MNT'000)

As at 31 December 2014

	Trading	Held-to-maturity investments	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and due from banks	-	-	1,054,739,557	-	-	1,054,739,557
Investment securities	-	356,231,923	-	552,501,021	-	908,732,944
Loans and advances	-	-	2,777,188,433	-	-	2,777,188,433
Subordinated loans	-	-	4,000,000	-	-	4,000,000
Derivative assets	59,225,754	-	-	-	-	59,225,754
Spot trading receivables	-	-	151,552,920	-	-	151,552,920
Other assets(*)	-	-	70,081,063	-	-	70,081,063
	<u>59,225,754</u>	<u>356,231,923</u>	<u>4,057,561,973</u>	<u>552,501,021</u>	<u>-</u>	<u>5,025,520,671</u>
Financial liabilities						
Deposits from customers	-	-	-	-	2,533,607,001	2,533,607,001
Deposits and placements by banks and other financial institutions	-	-	-	-	120,007,336	120,007,336
Borrowings	-	-	-	-	1,107,328,964	1,107,328,964
Debt securities issued	-	-	-	-	741,354,845	741,354,845
Subordinated debt securities issued	-	-	-	-	75,351,569	75,351,569
Derivative liabilities	27,643,093	-	-	-	-	27,643,093
Spot trading payables	-	-	-	-	151,588,485	151,588,485
Other liabilities(**)	-	-	-	-	99,640,442	99,640,442
	<u>27,643,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,828,878,642</u>	<u>4,856,521,735</u>

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.

(**) Unearned income, derivative liabilities and spot payables were excluded.

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Notes to the Consolidated Financial Statements
31 December 2014 and 2013

37 Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2013

	Trading	Held-to-maturity investments	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and due from banks	-	-	1,090,245,012	-	-	1,090,245,012
Investment securities	-	160,500,000	-	724,612,661	-	885,112,661
Loans and advances	-	-	2,530,557,178	-	-	2,530,557,178
Subordinated loans	-	-	7,000,000	-	-	7,000,000
Derivative assets	64,719,231	-	-	-	-	64,719,231
Spot trading receivables	-	-	276,359,629	-	-	276,359,629
Other assets(*)	-	-	50,595,083	-	-	50,595,083
	<u>64,719,231</u>	<u>160,500,000</u>	<u>3,954,756,902</u>	<u>724,612,661</u>	<u>-</u>	<u>4,904,588,794</u>
Financial liabilities						
Deposits from customers	-	-	-	-	2,139,692,149	2,139,692,149
Deposits and placements by banks and other financial institutions	-	-	-	-	172,109,699	172,109,699
Bills sold under repurchase agreements	-	-	-	-	372,650,503	372,650,503
Borrowings	-	-	-	-	1,157,090,928	1,157,090,928
Debt securities issued	-	-	-	-	460,563,148	460,563,148
Subordinated debt securities issued	-	-	-	-	66,036,156	66,036,156
Derivative liabilities	39,744,994	-	-	-	-	39,744,994
Spot trading payables	-	-	-	-	276,314,010	276,314,010
Other liabilities(**)	-	-	-	-	62,729,518	62,729,518
	<u>39,744,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,707,186,111</u>	<u>4,746,931,105</u>

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.

(**) Unearned income, derivative liabilities and spot payables were excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

37 Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2014 and 2013 were as follows:

(In MNT'000)

For the year ended 31 December 2014

	Interest income	Interest expenses	Fee and commission income	Other operating income	Provision for impairment loss	Net gains (losses)	Other compre- hensive income
Held-to-maturity investments	19,741,618	-	-	-	-	19,741,618	-
Loans and receivables	351,997,147	-	12,897,421	-	(40,720,427)	324,174,141	-
Available-for-sale financial assets	72,935,087	-	-	6,339,003	-	79,274,090	(41,641,303)
Derivatives and spot trading	-	-	-	11,537,886	-	11,537,886	-
Financial liabilities measured at amortised cost	-	(296,489,329)	-	-	-	(296,489,329)	-
	<u>444,673,852</u>	<u>(296,489,329)</u>	<u>12,897,421</u>	<u>17,876,889</u>	<u>(40,720,427)</u>	<u>138,238,406</u>	<u>(41,641,303)</u>

For the year ended 31 December 2013

	Interest income	Interest expenses	Fee and commission income	Other operating income	Provision for impairment loss	Net gains (losses)	Other compre- hensive income
Held-to-maturity investments	34,142,479	-	-	-	-	34,142,479	-
Loans and receivables	253,751,400	-	8,582,285	-	(4,639,927)	257,693,758	-
Available-for-sale financial assets	33,544,714	-	-	27,735,140	-	61,279,854	(11,654,040)
Derivatives and spot trading	-	-	-	32,274,066	-	32,274,066	-
Financial liabilities measured at amortised cost	-	(200,692,181)	-	98,168	-	(200,594,013)	-
	<u>321,438,593</u>	<u>(200,692,181)</u>	<u>8,582,285</u>	<u>60,107,374</u>	<u>(4,639,927)</u>	<u>184,796,144</u>	<u>(11,654,040)</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risks
- Liquidity risks
- Market risks

This note provides information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability Committee ("ALCO") and Credit Committee, which are responsible for developing and monitoring the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Representative Governing Board ("RGB") is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The RGB is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RGB.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances and investment securities.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. Each branch is required to implement the Group's credit policies and procedures, with credit approval authorities delegated from the Group's Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches and credit processes are undertaken by Internal Audit.

An analysis of the net amounts of loans and investment securities with respective allowances at the reporting date was shown below.

<i>(In MNT'000)</i>	Loans and advances		Investment securities	
	2014	2013	2014	2013
Carrying amount	<u>2,777,188,433</u>	<u>2,530,557,178</u>	<u>908,732,944</u>	<u>880,689,216</u>
Performing	2,559,852,569	2,494,251,068	908,732,944	880,689,216
In arrears(*)	162,499,799	27,017,021	-	-
Non-performing loans:				
a) Substandard	78,522,293	11,290,442	-	-
b) Doubtful	20,932,352	4,344,216	-	-
c) Loss	14,123,762	11,696,436	-	-
Gross amount	2,835,930,775	2,548,599,183	-	-
Allowance	<u>(58,742,342)</u>	<u>(18,042,005)</u>	-	-
Net carrying amount	<u>2,777,188,433</u>	<u>2,530,557,178</u>	<u>908,732,944</u>	<u>880,689,216</u>
Letters of credit and guarantees	332,538,877	169,140,235	-	-
Loan and credit card commitments	<u>182,317,263</u>	<u>120,997,443</u>	-	-
	<u>514,856,140</u>	<u>290,137,678</u>	-	-

(*) Loans included in this classification are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate based on the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Set out below is an analysis of the gross and net (after allowances for loan losses) amounts of individually impaired assets by classifications.

	2014 MNT'000			2013 MNT'000		
	Gross	Net	Fair value of collateral(*)	Gross	Net	Fair value of collateral(*)
In arrears	162,499,799	154,374,809	133,043,229	27,017,021	25,666,170	25,393,200
Substandard	78,522,293	58,891,719	58,346,867	11,290,442	8,467,832	8,339,007
Doubtful	20,932,352	10,466,176	10,289,851	4,344,216	2,172,108	1,926,762
Loss	14,123,762	-	-	11,696,436	-	-
	<u>276,078,206</u>	<u>223,732,704</u>	<u>201,679,947</u>	<u>54,348,115</u>	<u>36,306,110</u>	<u>35,658,969</u>

(*) The fair value of collateral represents the mitigation of credit risk due to collateral by each item. The fair value of collateral does not include mitigation of credit risk by other types of credit enhancement such as floating charge, guarantee from the third party and other tangible assets.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

The ultimate collectability of the loans is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Mongolian economy and the potential continuation of adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)**(b) Credit risk (continued)**

The Group monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the reporting date is shown below:

	2014 MNT'000	2013 MNT'000
Agriculture	17,436,243	19,464,926
Mining and quarrying	341,202,328	553,494,328
Manufacturing	276,424,120	235,469,970
Petrol import and trade	198,256,662	230,190,649
Trading	440,784,221	355,643,925
Construction	504,175,139	421,413,789
Electricity and thermal energy	15,527,025	32,822,484
Hotel, restaurant and tourism	78,767,210	53,545,296
Financial services	163,556,363	27,157,123
Transportation	71,104,482	34,556,821
Health	26,469,558	17,157,136
Education	3,048,892	1,936,912
Mortgage	316,764,600	293,338,638
Payment card	119,146,430	115,182,434
Saving collateralised	35,634,439	21,821,849
Others	168,890,721	117,360,898
Total	<u>2,777,188,433</u>	<u>2,530,557,178</u>

In 2014, the Group has changed the economic sector codification to comply with 'Amending sector classification of all economic operations' of Ministry of Finance of Mongolia ("MoF official guideline"). The new codification based on the MoF official guideline has 323 subsectors while previous sector codification that the Group applied in 2013 had 131 subsectors. As the subsector codification is defined in more detailed manner, the Group has redistributed its loan portfolio into 323 subsectors. There have been significant changes in the sector codification of mining and quarrying, construction, financial services, and hotel, restaurant and tourism due to this redistribution. For example, certain borrowers who only have shares in companies in the industry of mining and quarrying or constructions, etc., are classified into financial services in accordance with the MoF official guideline. The Group does not restate the comparative information because of the lack of the necessary and required information for the restatement of previous sector codification in 2013.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(b) Credit risk (continued)

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20% of the total equity of the Group. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the Group, and the total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2014 are as follows:

Description	Suitable ratios	31 December 2014	Violation
The loan and guarantee given to one borrower	<Eq 20%	16.26%	None
The loan and guarantee given to the single related party	<Eq 5%	1.75%	None
Total loans and guarantees given to the related parties	<Eq 20%	3.17%	None

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach for managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Group's ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia.

For this purpose the Group maintained a liquidity ratio; calculated as a ratio of a the Group's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BOM and investment securities to the Group's liquid liabilities; including deposit from customers, deposits and placements from the Groups and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

Details of the reported ratio at the reporting date were as follows:

	2014	2013
As at 31 December	41%	42%

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)
(c) Liquidity risk (continued)

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment:

(In MNT'000)

As at 31 December 2014	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	70,182,271	-	-	-	-	70,182,271
Deposits and placements with banks and other financial institutions	207,885,529	-	85,686,075	-	-	293,571,604
Balances with BOM	690,985,682	-	-	-	-	690,985,682
Investment securities	-	64,714,445	117,882,967	618,868,992	107,266,540	908,732,944
Loans and advances	388,091,652	365,848,034	699,887,188	1,074,384,923	248,976,636	2,777,188,433
Subordinated loans	-	-	-	4,000,000	-	4,000,000
Other assets(*)	218,478,256	1,521,512	5,069,063	55,445,122	345,784	280,859,737
	<u>1,575,623,390</u>	<u>432,083,991</u>	<u>908,525,293</u>	<u>1,752,699,037</u>	<u>356,588,960</u>	<u>5,025,520,671</u>
Financial liabilities						
Deposits from customers	1,854,986,568	383,676,878	217,666,857	77,276,698	-	2,533,607,001
Deposits and placements by banks and other financial Institutions	81,630,664	14,523,832	23,852,840	-	-	120,007,336
Borrowings	271,650,683	319,640,890	236,754,910	278,033,519	1,248,962	1,107,328,964
Debt securities issued	-	-	531,957,131	209,397,714	-	741,354,845
Subordinated debt securities issued	-	-	47,140,000	28,211,569	-	75,351,569
Other liabilities(**)	207,580,437	14,215,485	26,349,653	30,722,386	4,059	278,872,020
Issued financial guarantee contracts	332,538,877	-	-	-	-	332,538,877
Unrecognised loan commitments	182,317,263	-	-	-	-	182,317,263
	<u>2,930,704,492</u>	<u>732,057,085</u>	<u>1,083,721,391</u>	<u>623,641,886</u>	<u>1,253,021</u>	<u>5,371,377,875</u>
Net financial assets/(liabilities)	<u>(1,355,081,102)</u>	<u>(299,973,094)</u>	<u>(175,196,098)</u>	<u>1,129,057,151</u>	<u>355,335,939</u>	<u>(345,857,204)</u>

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

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31 December 2014 and 2013

38 Financial risk management (continued)
(c) Liquidity risk (continued)
(In MNT'000)

As at 31 December 2013	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	64,232,328	-	-	-	-	64,232,328
Deposits and placements with banks and other financial institutions	336,990,113	-	-	-	-	336,990,113
Balances with BOM	689,022,571	-	-	-	-	689,022,571
Investment securities	5,062,686	-	92,501,535	642,410,428	145,138,012	885,112,661
Loans and advances	488,342,728	293,154,436	625,030,900	903,318,624	220,710,490	2,530,557,178
Subordinated loans	-	-	3,000,000	4,000,000	-	7,000,000
Other assets(*)	354,474,197	11,380,391	3,119,998	21,371,785	1,327,572	391,673,943
	<u>1,938,124,623</u>	<u>304,534,827</u>	<u>723,652,433</u>	<u>1,571,100,837</u>	<u>367,176,074</u>	<u>4,904,588,794</u>
Financial liabilities						
Deposits from customers	1,610,220,905	283,642,380	192,918,245	52,910,619	-	2,139,692,149
Deposits and placements by banks and other financial Institutions	135,769,122	19,849,200	16,491,377	-	-	172,109,699
Bills sold under repurchase agreements	372,650,503	-	-	-	-	372,650,503
Borrowings	183,754,594	329,991,463	276,869,563	357,164,525	9,310,783	1,157,090,928
Debt securities issued	-	-	-	460,563,148	-	460,563,148
Subordinated debt securities issued	-	-	-	66,036,156	-	66,036,156
Other liabilities(**)	335,113,893	18,912,479	7,773,202	16,908,200	80,748	378,788,522
Issued financial guarantee contracts	169,140,235	-	-	-	-	169,140,235
Unrecognised loan commitments	120,997,443	-	-	-	-	120,997,443
	<u>2,927,646,695</u>	<u>652,395,522</u>	<u>494,052,387</u>	<u>953,582,648</u>	<u>9,391,531</u>	<u>5,037,068,783</u>
Net financial assets/(liabilities)	<u>(989,522,072)</u>	<u>(347,860,695)</u>	<u>229,600,046</u>	<u>617,518,189</u>	<u>357,784,543</u>	<u>(132,479,989)</u>

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates.

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

Overall authority for market risk is vested with the ALCO.

Exposure to interest rate risks

The principal risk to which the Group's financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Group's interest rate gap position on its financial assets and liabilities are as follows:

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)
(d) Market risks (continued)
As at 31 December 2014
(In MNT'000)

	Effective interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand		70,182,271	70,182,271	-	-	-	-	-
Deposits and placements with banks and other financial institutions	8.13%	293,571,604	113,669,029	94,216,500	-	85,686,075	-	-
Balances with BOM	10.00%	690,985,682	615,985,682	75,000,000	-	-	-	-
Investment securities	11.61%	908,732,944	77,649,239	-	64,714,445	117,882,967	618,868,992	29,617,301
Loans and advances	12.20%	2,777,188,433	-	388,091,652	365,848,034	699,887,188	1,074,384,923	248,976,636
Subordinated loan	8.00%	4,000,000	-	-	-	-	4,000,000	-
Other assets(*)		280,859,737	280,859,737	-	-	-	-	-
		<u>5,025,520,671</u>	<u>1,158,345,958</u>	<u>557,308,152</u>	<u>430,562,479</u>	<u>903,456,230</u>	<u>1,697,253,915</u>	<u>278,593,937</u>
Financial liabilities								
Deposits from customers	6.18%	2,533,607,001	-	1,854,986,568	383,676,878	217,666,857	77,276,698	-
Deposits and placements with banks and other financial institutions	5.54%	120,007,336	10,833,951	70,796,713	14,523,832	23,852,840	-	-
Borrowing	4.69%	1,107,328,964	-	271,650,683	319,640,890	236,754,910	278,033,519	1,248,962
Debt securities issued	8.99%	741,354,845	-	-	-	531,957,131	209,397,714	-
Subordinated debt securities issued	11.03%	75,351,569	-	-	-	47,140,000	28,211,569	-
Other liabilities(**)		278,872,020	278,872,020	-	-	-	-	-
		<u>4,856,521,735</u>	<u>289,705,971</u>	<u>2,197,433,964</u>	<u>717,841,600</u>	<u>1,057,371,738</u>	<u>592,919,500</u>	<u>1,248,962</u>
Net financial assets/(liabilities)		<u>168,998,936</u>	<u>868,639,987</u>	<u>(1,640,125,812)</u>	<u>(287,279,121)</u>	<u>(153,915,508)</u>	<u>1,104,334,415</u>	<u>277,344,975</u>

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)
(d) Market risks (continued)
As at 31 December 2013
(In MNT'000)

	Effective interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand		64,232,328	64,232,328	-	-	-	-	-
Deposits and placements with banks and other financial institutions	8.06%	336,990,113	156,352,445	180,637,668	-	-	-	-
Balances with BOM		689,022,571	689,022,571	-	-	-	-	-
Investment securities	9.88%	885,112,661	4,423,445	5,062,685	-	92,501,535	642,410,428	140,714,568
Loans and advances	11.99%	2,530,557,178	-	488,342,728	293,154,436	625,030,900	903,318,625	220,710,489
Subordinated loan	9.71%	7,000,000	-	-	-	3,000,000	4,000,000	-
Other assets(*)		391,673,943	391,673,943	-	-	-	-	-
		<u>4,904,588,794</u>	<u>1,305,704,732</u>	<u>674,043,081</u>	<u>293,154,436</u>	<u>720,532,435</u>	<u>1,549,729,053</u>	<u>361,425,057</u>
Financial liabilities								
Deposits from customers	5.96%	2,139,692,149	-	1,610,220,905	283,642,380	192,918,245	52,910,619	-
Deposits and placements with banks and other financial institutions	5.35%	172,109,699	14,377,341	121,391,781	19,849,200	16,491,377	-	-
Bills sold under repurchase agreements	12.50%	372,650,503	-	372,650,503	-	-	-	-
Borrowing	4.00%	1,157,090,928	-	183,754,594	329,991,463	276,869,563	357,164,525	9,310,783
Debt securities issued	8.59%	460,563,148	-	-	-	-	460,563,148	-
Subordinated debt securities issued	11.05%	66,036,156	-	-	-	-	66,036,156	-
Other liabilities(**)		378,788,522	378,788,522	-	-	-	-	-
		<u>4,746,931,105</u>	<u>393,165,863</u>	<u>2,288,017,783</u>	<u>633,483,043</u>	<u>486,279,185</u>	<u>936,674,448</u>	<u>9,310,783</u>
Net financial assets/(liabilities)		<u>157,657,689</u>	<u>912,538,869</u>	<u>(1,613,974,702)</u>	<u>(340,328,607)</u>	<u>234,253,250</u>	<u>613,054,605</u>	<u>352,114,274</u>

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(d) Market risks (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Group's sensitivity to a 100 basis point (bp) increase or decrease in interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) for net financial assets/(liabilities) less than one year is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
	<hr/>	<hr/>
<i>Sensitivity of projected net interest income</i>		
2014		
At 31 December	<u>(16,531,384)</u>	<u>16,531,384</u>
2013		
At 31 December	<u>(15,663,699)</u>	<u>15,663,699</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)
(d) Market risks (continued)
Exposure to foreign exchange rate risks

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's management sets limits on the level of exposure by currencies (primarily USD) and in total. These limits also comply with the minimum requirements set by BOM.

(In MNT'000)

	MNT denominated	2014 Foreign currencies	Total	MNT denominated	2013 Foreign currencies	Total
Financial assets						
Cash on hand	35,592,587	34,589,684	70,182,271	34,340,930	29,891,398	64,232,328
Deposits and placements with banks and other financial instruments	107,479,786	186,091,818	293,571,604	280,640,011	56,350,102	336,990,113
Balances and deposits with the BOM	157,440,592	533,545,090	690,985,682	444,306,076	244,716,495	689,022,571
Investment securities	835,718,150	73,014,794	908,732,944	848,377,307	36,735,354	885,112,661
Loan and advances	1,265,680,779	1,511,507,654	2,777,188,433	1,254,306,839	1,276,250,339	2,530,557,178
Subordinated loans	4,000,000	-	4,000,000	7,000,000	-	7,000,000
Other assets (*)	102,974,132	177,885,605	280,859,737	100,196,917	291,477,026	391,673,943
	<u>2,508,886,026</u>	<u>2,516,634,645</u>	<u>5,025,520,671</u>	<u>2,969,168,080</u>	<u>1,935,420,714</u>	<u>4,904,588,794</u>
Financial liabilities						
Deposits from customers	1,193,983,731	1,339,623,270	2,533,607,001	1,080,994,172	1,058,697,977	2,139,692,149
Deposits and placement by bank and other financial institutions	477,418	119,529,918	120,007,336	106,433,227	65,676,472	172,109,699
Bills sold under repurchase agreements	-	-	-	372,650,503	-	372,650,503
Borrowings	552,220,719	555,108,245	1,107,328,964	826,235,611	330,855,317	1,157,090,928
Debt securities issued	-	741,354,845	741,354,845	-	460,563,148	460,563,148
Subordinated debt	-	75,351,569	75,351,569	-	66,036,156	66,036,156
Other liabilities (**)	165,112,747	113,759,273	278,872,020	345,226,256	33,562,266	378,788,522
	<u>1,911,794,615</u>	<u>2,944,727,120</u>	<u>4,856,521,735</u>	<u>2,731,539,769</u>	<u>2,015,391,336</u>	<u>4,746,931,105</u>
Off-balance foreign currency exposure, net		<u>334,548,707</u>			<u>(80,776,654)</u>	
Net foreign currency exposure		<u>(93,543,768)</u>			<u>(160,747,276)</u>	

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks (continued)

A ten percent strengthening or weakening of the MNT against the USD at 31 December 2014 and 2013 would have increased (decreased) comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Ten percent Strengthening MNT'000	Ten percent Weakening MNT'000
	<hr/>	<hr/>
2014		
At 31 December	<hr/> <u>(9,354,377)</u>	<hr/> <u>9,354,377</u>
2013		
At 31 December	<hr/> <u>(16,074,728)</u>	<hr/> <u>16,074,728</u>

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

38 Financial risk management (continued)

(e) Capital Management

BOM sets and monitors capital requirements for the Group as a whole.

The Bank of Mongolia requires the Group to maintain a minimum capital adequacy ratio of 14.0% at 31 December 2014 and 2013, complied on the basis of total capital and total assets as adjusted for their risk ("CAR"), and a minimum of 9.0% at 31 December 2014 and 2013, complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated borrowings capital may not exceed 50 percent of tier 1 capital.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year.

The suitable ratios of the Group's capital adequacy as at 31 December 2014 and 2013, respectively, were as following:

	2014 MNT'000	2013 MNT'000
Tier 1 capital	422,393,739	326,723,688
Tier 2 capital	200,509,855	96,994,958
Total Tier 1 and Tier 2 capital	622,903,594	423,718,646
Risk weighted assets	3,250,150,263	2,810,912,604
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	19.17%	15.07%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	13.00%	11.62%

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

39 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

The Group follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in measurement.

Level 1: Fair value is based on quoted prices in active markets for identical assets or liabilities

Level 2: The inputs used for fair value measurement are market observable inputs, either directly or indirectly.

Level 3: Valuation techniques are used to estimate fair value of which significant inputs are not based on observable market data.

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

The Group determines fair values for those financial instruments which are not carried at fair value in the consolidated financial statements as follows:

(i) *Financial assets and liabilities for which fair value approximates carrying amount*

For financial assets and financial liabilities that are liquid or having short term maturity of less than one year, it is assumed that the carrying amounts approximate to their respective fair value. This assumption is also applicable to demand deposits, time deposits and variable rate financial instruments, which is principally due to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

(ii) *Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost basis are estimated by comparing market interest rates when they were first recognised with the current market rates offered for the similar financial instruments available in Mongolia. For quoted debt issued, the fair values are measured based on quoted market prices and in case where observable market inputs are not available, a discounted cash flow model is employed.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

39 Fair values of financial assets and liabilities (continued)

(In MNT'000)

	Note	2014		2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash on hand	5	70,182,271	70,182,271	64,232,328	64,232,328
Deposits and placements with banks and other financial institutions	5	984,557,286	984,557,286	1,026,012,684	1,026,012,684
Investment securities	6	908,732,944	891,441,305	885,112,661	885,781,828
Loans and advances to customers	8	2,777,188,433	2,862,321,184	2,530,557,178	2,572,323,866
Subordinated loans	9	4,000,000	4,000,000	7,000,000	7,000,000
Other assets(*)	14	280,859,737	280,859,737	391,673,943	391,673,943
		<u>5,025,520,671</u>	<u>5,093,361,783</u>	<u>4,904,588,794</u>	<u>4,947,024,649</u>
Financial liabilities					
Deposits from customers	15	2,533,607,001	2,531,874,208	2,139,692,149	2,138,322,635
Deposits and placements by banks and other financial institutions	16	120,007,336	120,007,336	172,109,699	172,109,699
Bills sold under repurchase agreements	17	-	-	372,650,503	372,650,503
Borrowings	18	1,107,328,964	1,107,328,964	1,157,090,928	1,157,090,928
Debt securities issued	19	741,354,845	711,503,745	460,563,148	442,744,436
Subordinated debt securities issued	20	75,351,569	73,378,939	66,036,156	63,779,330
Other liabilities(**)	21	278,872,020	278,872,020	378,788,522	378,788,522
		<u>4,856,521,735</u>	<u>4,822,965,212</u>	<u>4,746,931,105</u>	<u>4,725,486,053</u>

(*) Prepayments, precious metal and inventory supplies were excluded.

(**) Unearned income was excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

39 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are measured at fair value in the consolidated statement of financial position as at 31 December 2014 and 2013 were as follows:

(In MNT'000)

	2014(**)			Total
	Level 1	Level 2	Level 3	
Investment securities (AFS)(*)	78,448,110	473,609,481	-	552,057,591
Derivative assets	-	59,225,754	-	59,225,754
	<u>78,448,110</u>	<u>532,835,235</u>	<u>-</u>	<u>611,283,345</u>
Derivative liabilities	-	27,643,093	-	27,643,093
	<u>-</u>	<u>27,643,093</u>	<u>-</u>	<u>27,643,093</u>

(*) As at 31 December 2014, unquoted equity securities at cost amounting to MNT 443,430 were excluded.

(**) There was no transfer between level 1 and level 2 for year ended 31 December 2014.

The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.

(In MNT'000)

	2013(**)			Total
	Level 1	Level 2	Level 3	
Investment securities (AFS)(*)	3,980,015	720,189,216	-	724,169,231
Derivative assets	-	64,719,231	-	64,719,231
	<u>3,980,015</u>	<u>784,908,447</u>	<u>-</u>	<u>788,888,462</u>
Derivative liabilities	-	39,744,994	-	39,744,994
	<u>-</u>	<u>39,744,994</u>	<u>-</u>	<u>39,744,994</u>

(*) As at 31 December 2013, unquoted equity securities at cost amounting to MNT 443,430 were excluded.

(**) There was no transfer between level 1 and level 2 for year ended 31 December 2013.

The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

39 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as at 31 December 2014 and 2013 were as follows:

(In MNT'000)

	2014			Total
	Level 1	Level 2	Level 3	
Cash on hand	70,182,271	-	-	70,182,271
Deposits and placements with banks and other financial institutions	-	-	984,557,286	984,557,286
Investment securities(HTM)	-	338,940,284	-	338,940,284
Loans and advances	-	-	2,862,321,184	2,862,321,184
Subordinated loans	-	-	4,000,000	4,000,000
Spot receivables	151,552,920	-	-	151,552,920
Other assets(*)	-	-	70,081,063	70,081,063
	<u>221,735,191</u>	<u>338,940,284</u>	<u>3,920,959,533</u>	<u>4,481,635,008</u>
Deposits from customers	-	-	2,531,874,208	2,531,874,208
Deposits and placements by banks and other financial institutions	-	-	120,007,336	120,007,336
Bills sold under repurchase agreements	-	-	-	0
Borrowings	-	-	1,107,328,964	1,107,328,964
Debt securities issued	-	711,503,745	-	711,503,745
Subordinated debt securities issued	-	54,821,987	18,556,952	73,378,939
Spot payables	151,588,485	-	-	151,588,485
Other liabilities(**)	-	-	99,640,442	99,640,442
	<u>151,588,485</u>	<u>766,325,732</u>	<u>3,877,407,902</u>	<u>4,795,322,119</u>

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.

(**) Unearned income, derivative liabilities and spot payables were excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

39 Fair values of financial assets and liabilities (continued)

(In MNT'000)

	2013			Total
	Level 1	Level 2	Level 3	
Cash on hand	64,232,328	-	-	64,232,328
Deposits and placements with banks and other financial institutions	-	-	1,026,012,684	1,026,012,684
Investment securities(HTM)	-	161,169,167	-	161,169,167
Loans and advances	-	-	2,572,323,866	2,572,323,866
Subordinated loans	-	-	7,000,000	7,000,000
Spot receivables	276,359,629	-	-	276,359,629
Other assets(*)	-	-	50,595,083	50,595,083
	<u>340,591,957</u>	<u>161,169,167</u>	<u>3,655,931,633</u>	<u>4,157,692,757</u>
Deposits from customers	-	-	2,138,322,635	2,138,322,635
Deposits and placements by banks and other financial institutions	-	-	172,109,699	172,109,699
Bills sold under repurchase agreements	-	-	372,650,503	372,650,503
Borrowings	-	-	1,157,090,928	1,157,090,928
Debt securities issued	-	442,744,436	-	442,744,436
Subordinated debt securities issued	-	47,502,324	16,277,006	63,779,330
Spot payables	276,314,010	-	-	276,314,010
Other liabilities(**)	-	-	62,729,518	62,729,518
	<u>276,314,010</u>	<u>490,246,760</u>	<u>3,919,180,289</u>	<u>4,685,741,059</u>

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.

(**) Unearned income, derivative liabilities and spot payables were excluded.

Notes to the Consolidated Financial Statements

31 December 2014 and 2013

40 Offsetting financial assets and liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as at 31 December 2014 and 2013 are as follows:

(In MNT'000)

	2014					
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Amount not offsetting in the statements of financial position		Total
				Financial instruments	Cash collateral received	
Financial assets						
Derivative assets(*)	238,422	-	238,422			
Receivable spot exchange(*)	50,534,080	-	50,534,080	50,529,892	-	242,610
	<u>50,772,502</u>	<u>-</u>	<u>50,772,502</u>	<u>50,529,892</u>	<u>-</u>	<u>242,610</u>
Financial liabilities						
Derivative liabilities(*)	3,183,135	-	3,183,135			
Payable spot exchange(*)	50,529,892	-	50,529,892	50,529,892	-	3,183,135
	<u>53,713,027</u>	<u>-</u>	<u>53,713,027</u>	<u>50,529,892</u>	<u>-</u>	<u>3,183,135</u>

(*) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

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31 December 2014 and 2013

40 Offsetting financial assets and liabilities (continued)

(In MNT'000)

	2013					
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Amount not offsetting in the statements of financial position		Total
				Financial instruments	Cash collateral received	
Financial assets						
Receivable spot exchange(*)	57,628,380	-	57,628,380	57,578,805	-	49,575
	<u>57,628,380</u>	<u>-</u>	<u>57,628,380</u>	<u>57,578,805</u>	<u>-</u>	<u>49,575</u>
Financial liabilities						
Derivative liabilities(*)	203,517	-	203,517			
Payable spot exchange(*)	57,580,664	-	57,580,664	57,578,805	-	205,376
Bills sold under repurchase agreements(**)	372,650,503	-	372,650,503	372,650,503	-	-
	<u>430,434,684</u>	<u>-</u>	<u>430,434,684</u>	<u>430,229,308</u>	<u>-</u>	<u>205,376</u>

(*) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(**) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

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41 Commitment and contingent liabilities**Financial guarantees and letters of credit**

At any time the Group has outstanding commitments to extend credit, these commitments take the form of undrawn portions of approved loans, credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers third parties. These agreements have fixed limits and generally extend for a period of less than one year. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions. The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

The amounts reflected in the table for guarantees and letters of credit represent the maximum exposure to credit risk would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December	2014 MNT'000	2013 MNT'000
Letters of credit and guarantees	332,538,877	169,140,235
Loan and credit card commitments	182,317,263	120,997,443

These commitments and contingent liabilities have off balance-sheet credit risk for which provisions are not currently made which is a local banking industry practice acknowledged by BOM. A significant portion of the contingent liabilities and commitments will expire without being advanced in whole or in part. Accordingly, the amounts do not represent expected future cash flows.

Bank Deposit Guarantee commission

The Mongolian Government issued the Guarantee for Bank's Deposits law in November 2008 in order to provide the financial markets solvency and guarantee the banks' deposits by the government. In July 2010, the law was amended to state that the Commercial banks, defined by Mongolian law, will charge a commission of 0.3% of a customer's deposit balance that is guaranteed by the law.

However, at this time it is uncertain whether the Group will be required to pay the commission for the years from 2010 to 2012 since commercial banks appealed a claim to Administrative Court of Mongolia not to pay commission for 2010 to 2012 and the case is still ongoing in the court. If the Group was required to pay the commission for the years from 2010 to 2012, it would materially affect the Group's performance.

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42 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as at 31 December 2014 was as follows:

<u>Type</u>	<u>Nature and purpose</u>	<u>Financing</u>	<u>Total Assets</u>
	To generate:		
Securitisation vehicles for loans and advances	<ul style="list-style-type: none"> ▪ funding for the Group's lending activities. ▪ fees for loan servicing. <p>These vehicles are financed through the issue of notes to investors.</p>	Issue of RMBS notes	847,361,120

Exposure to risk relating to interests in unconsolidated structured entities as at 31 December 2014 was as follows:

	<u>Securitisation vehicles for loans and advances</u>
Asset:	
Investment securities	28,375,000