XACBANK LLC

Financial Statements together with Independent Auditor's Report

31 December 2014

XACBANK LLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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XACBANK LLC

CORPORATE INFORMATION

REGISTERED ADDRESS:	XacBank Building Prime Minister Amar’s Street, Post Branch # 46, P.O Box 721, Ulaanbaatar 14200, Mongolia
BOARD OF DIRECTORS:	Mr. Ganbold Chuluun Mr. Bold Magvan Mr. Bat-Ochir Dugersuren Ms. Tselmuun Nyamtaishir Mr. Richard Ranken Mr. Shuji Irie Ms. Sabina Dziurman Mr. Michael Madden Mr. Batsaikhan Baatar (appointed on 3 April 2014) Mr. James Stent (appointed on 3 April 2014)
CORPORATE SECRETARY:	Ms. Ashidmaa Dashnyam
AUDITORS	Deloitte Onch Audit LLC

XACBANK LLC

STATEMENT BY DIRECTOR AND MANAGEMENT

We, Bold Magvan, being Chief Executive Officer of XacBank LLC ("the Bank") and Erdenebayar Ganzorig, being the officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 1 to 104 present fairly, in all material respects the financial position of the Bank as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

BOLD MAGVAN
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar
Date: March 18, 2015

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of XacBank LLC

We have audited the accompanying financial statements of XacBank LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended 31 December 2013 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 25 March 2014.

Restriction of use

This report is made solely to the shareholder of the Bank, as a body, in accordance with the audit requested by the shareholder in accordance with Article 94 of Company Law of Mongolia and for no other purpose. We do not assume responsibility towards, or accept liability to, any other person for the contents of this report.

DELOITTE ONCH AUDIT LLC

Deloitte Onch Audit LLC

Deloitte Onch Audit LLC
Ulaanbaatar, Mongolia
18 March 2015

XACBANK LLC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 MNT'000	2013 MNT'000
Interest and similar income	4	238,455,847	181,022,347
Interest and similar expenses	5	(141,046,690)	(100,332,244)
Net interest income		**97,409,157**	**80,690,103**
Fees and commission income	6	7,690,980	5,799,626
Fees and commission expenses	6	(1,019,381)	(782,369)
Net fees and commission income	6	**6,671,599**	**5,017,257**
Net trading income	7	54,028	2,568,294
Other operating income – net	8	(7,832,121)	4,142,363
Total operating income		**96,302,663**	**92,418,017**
Credit loss expense	9	(29,887,298)	(9,706,640)
Net operating income		**66,415,365**	**82,711,377**
Operating expenses	10	(55,111,209)	(54,142,727)
Amortisation of deferred grants	29	903,878	1,323,934
Profit before tax		**12,208,034**	**29,892,584**
Income tax expense	11	(572,326)	(5,520,275)
Profit for the year		**11,635,708**	**24,372,309**
Other comprehensive income		–	–
Total comprehensive income, (net of tax) attributable to equity holder of the Bank		**11,635,708**	**24,372,309**
Earnings per share (MNT):			
Basic earnings per share	12	571.68	1,197.44
Diluted earnings per share	12	571.68	1,197.44

The accompanying notes form an integral part of the financial statements

XACBANK LLC

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 MNT'000	2013 MNT'000
ASSETS			
Cash and balances with BoM	**13**	187,780,433	238,614,870
Due from banks	**14**	138,422,940	121,851,611
Reverse repurchase agreements	**15**	152,799,124	29,991,255
Derivative financial instruments	**16**	1,469,087	636,835
Financial investments – available-for-sale	**17**	7,751,391	15,500,694
Financial investments – held-to-maturity	**17**	211,594,397	329,582,816
Loans and advances to customers	**18**	1,313,697,656	1,029,541,294
Other assets	**19**	6,602,101	4,361,822
Properties held for sale	**20**	10,727,557	5,105,763
Property and equipment	**21**	31,241,651	29,595,235
Intangible assets	**22**	8,407,675	5,666,416
Deferred tax asset	**23**	2,321,415	1,035,981
TOTAL ASSETS		**2,072,815,427**	**1,811,484,592**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	**24**	34,317,691	141,706,978
Repurchase agreements	**25**	179,763,676	162,428,300
Due to customers	**26**	797,749,013	644,483,183
Derivative financial instruments	**16**	2,427,739	626,804
Borrowed funds	**27**	803,560,458	664,368,204
Subordinated loans	**28**	97,925,342	58,637,886
Deferred grants	**29**	1,622,531	1,957,277
Other liabilities	**30**	21,206,909	13,142,756
Income tax payable		401,316	1,928,160
TOTAL LIABILITIES		**1,938,974,675**	**1,689,279,548**
EQUITY			
Ordinary shares	**31**	20,353,656	20,353,656
Share premium		34,989,097	34,989,097
Other reserves	**32**	10,531,368	10,531,368
Retained profits		67,966,631	56,330,923
TOTAL EQUITY		**133,840,752**	**122,205,044**
TOTAL LIABILITIES AND EQUITY		**2,072,815,427**	**1,811,484,592**

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

XACBANK LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Ordinary shares MNT'000	Share premium MNT'000	Other reserves MNT'000	Retained earnings MNT'000	Total equity MNT'000
At January 2013	20,353,656	34,989,097	10,531,368	31,958,614	97,832,735
Total comprehensive income	-	-	-	24,372,309	24,372,309
At 31 December 2013	**20,353,656**	**34,989,097**	**10,531,368**	**56,330,923**	**122,205,044**
Total comprehensive income	-	-	-	11,635,708	11,635,708
At 31 December 2014	**20,353,656**	**34,989,097**	**10,531,368**	**67,966,631**	**133,840,752**

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

XACBANK LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 MNT'000	2013 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		12,208,034	29,892,584
Adjustments for:-			
Changes in fair value of held-for-trading financial instrument	**7**	(139,774)	(381,046)
Loss/Gain on disposal of property and equipment	**8**	466	(21,382)
Gain on disposal of intangible asset		2,465	(4,517)
Gain on disposal of properties held for sale		(61,029)	(9,819)
Unrealised foreign exchange loss/(gain)	**8**	8,201,037	(3,479,465)
Credit loss for loans and advances to customers	**9**	29,776,497	9,681,496
Credit loss for other assets	**9**	110,801	25,144
Depreciation of property and equipment	**10**	4,255,388	3,710,494
Amortisation of intangible assets	**10**	986,182	816,248
Property and equipment written off	**10**	246,878	69
Impairment loss on foreclosed properties	**10**	418,496	31,314
Amortisation of deferred grants	**29**	(903,878)	(1,323,934)
Operating profit before working capital changes		**55,101,563**	**38,937,186**
Changes in operating assets:-			
Statutory deposits with BoM		(21,083,765)	(24,441,404)
Due from banks		(76,379,494)	20,100,764
Reverse repurchase agreements		(122,807,869)	(26,493,194)
Loans and advances to customers		(263,877,843)	(357,110,494)
Properties held for sale		(5,560,765)	(4,064,367)
Derivative financial instruments		(832,252)	-
Other assets		(2,671,785)	2,578,714
Changes in operating liabilities:-			
Due to banks		(110,205,781)	81,954,306
Repurchase agreements		17,335,376	99,423,685
Due to customers		140,112,627	115,677,112
Derivative financial instruments		842,283	-
Other liabilities		6,492,287	4,682,119
Cash (used in) operations		**(383,535,418)**	**(48,755,574)**
Income tax paid		(3,384,604)	(4,978,793)
Net cash flows (used in) operating activities		**(386,920,022)**	**(53,734,367)**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT'D)

CASH FLOWS FROM INVESTING ACTIVITIES

	Note	2014 MNT'000	2013 MNT'000
Purchase of financial investments		(30,406,121)	(69,580,206)
Proceeds from financial investments		60,912,000	
Proceeds on disposal of property and equipment		357,851	253,190
Proceeds on disposal of intangible assets		641,980	6,600
Purchase of property, plant and equipment		(6,506,999)	(8,545,289)
Purchase of intangible assets		(4,371,886)	(1,986,179)
Net cash flows from/(used in) investing activities		**20,626,825**	**(79,851,884)**

CASH FLOWS FROM FINANCING ACTIVITIES

	Note	2014 MNT'000	2013 MNT'000
Drawdown of borrowed funds		652,212,407	501,497,800
Drawdown of subordinated loans		57,556,522	-
Repayment of borrowed funds		(567,103,685)	(165,082,378)
Repayment of subordinated loans		(27,990,300)	-
Dividends paid	**33**	(1,204)	-
Deferred grants received	**29**	569,132	1,704,573
Net cash flows generated from financing activities		**115,242,872**	**338,119,995**
Effect of exchange rate changes on cash and cash equivalents		23,906,037	19,548,729
Net increase in cash and cash equivalents		(251,050,325)	204,533,745
Cash and cash equivalents brought forward		519,971,783	295,889,309
Cash and cash equivalents carried forward	**34**	**292,827,495**	**519,971,783**

Operational cash flows from interest

		2014 MNT'000	2013 MNT'000
Interest paid		140,530,774	96,244,403
Interest received		232,049,888	177,687,958

The accompanying notes form an integral part of the financial statements

1. Corporate Information

XacBank is principally engaged in the business of providing banking and financial services pursuant to License No. 24 issued by the Bank of Mongolia ("BoM"). There have been no significant changes in the nature of the Bank's activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The Bank's registered address and the principal place of business is at XacBank Building, Prime Minister Amar's Street, Sukhbaatar District, Ulaanbaatar, Mongolia.

The holding company of the Bank is TenGer Financial Group LLC which is incorporated in Mongolia. The shareholders of the holding company are:

- Mongolyn Alt (MAK) Corporation LLC
- International Finance Corporation (IFC)
- ORIX Corporation
- European Bank for Reconstruction and Development (EBRD)
- Ronoc Partners S.A.R.L.
- Mercy Corps
- Mongolia Financial Services LLC
- Ard Financial Group LLC
- Triodos Fair Share Fund
- Open Society Forum
- MCS Holding LLC
- UB Rotary Club
- Bold Magvan
- Ganbold Chuluun

The financial statements of the Bank were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 18 March 2015.

2.1 Basis of preparation

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

2.1 Basis of preparation (Contd.)

Statement of compliance

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in Note 37.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Depreciation of buildings

Buildings are depreciated on a straight line basis over the estimated useful life of 40 years even though the lease period of the land on which the buildings are on are shorter than 40 years. By virtue of the Law of Mongolia on Land, the Bank enjoys the rights to request for extension of the lease period and the authority shall extend the period of lease subject to certain conditions being met. The management believes that the Bank have met the conditions set consistently and for the purpose of depreciation of buildings, the Bank estimated that a cumulative lease period of 40 years is reasonable and appropriate.

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Impairment losses on loans and advances

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is recorded under ‘Credit loss expense’ and disclosed in more detail in Notes 9 and 18.

Impairment of available-for-sale investments

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. Subsequent recoveries of amount previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The fair value financial instruments as well as its fair hierarchy are described in more detail in Note 35.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2014:

New and amended standards and interpretations

- Amendments to IFRS 10 — *Consolidated Financial Statements - Investment Entities*
- Amendments to IFRS 12 — *Disclosure of Interests in Other Entities - Investment Entities*
- Amendments to IAS 27 — *Separate Financial Statements - Investment Entities*
- Amendments to IAS 32 — *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
- Amendments to IAS 36 — *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to IAS 39 — *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IFRIC 21 — *Levies*
- Annual Improvements (2010-2012 cycle) — *Amendments to a number of IFRSs issued in December 2013*
- Annual Improvements (2012-2014 cycle) — *Amendments to a number of IFRSs issued in December 2013*

The adoption of the new and amended standards and interpretations did not have any significant impact on the financial performance or position of the Bank.

Standards issued but not yet effective

The Standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 10 and IAS 28, *Amendments to IFRS 10 and IAS 28 Sale and Contribution of Assets between an Investor and its Associate and its Associate or Joint Venture* [1]
- IFRS 11, *Amendments to IFRS 11 Accounting for Acquisitions of Interests In Joints Operations* [1]
- IFRS 14. *Amendments to IFRS 14 Regulatory Deferral Accounts* [1]
- IAS 16 and IAS 38, *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
- IAS 16 and IAS 41, *Amendments to IAS 16 and IAS 41 Bearer Plants* [1]
- IAS 27, *Amendments to IAS 27 Equity Method in Separate Financial Statements* [1]
- IFRS 9, *Amendments to IFRS 9 Financial Instruments* [3]
- IFRS 15 , *Amendments to IFRS 15 Revenue from Contracts with Customers* [2]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2017
[3] Effective for annual periods beginning on or after 1 January 2018

2.3 Changes in accounting policies and disclosures (Contd.)

Amendments to IFRSs and new Interpretation that are mandatory effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting periods that begins on or after 1 January 2014.

Amendments to IFRS 10, IFRS 12 and lAS 27 *Investment Entities*

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and lAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Company's financial statements.

Amendments to lAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to lAS 32 *Offsetting Financial Assets and Financial Liabilities* clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

2.3 Changes in accounting policies and disclosures (Contd.)

Amendments to lAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to lAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Company's financial statements.

Amendments to lAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to lAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness

As the Company does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

IFRIC 21 Levies

IFRIC 21 *Levies* addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

2.3 Changes in accounting policies and disclosures (Contd.)

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[5]
IFRS 15	Revenue from Contracts with Customers[4]
Amendments to IFRS 22	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[1]

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[5] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

2.3 Changes in accounting policies and disclosures (Contd.)

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of lAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss .Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss . Under lAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under lAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in lAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2.3 Changes in accounting policies and disclosures (Contd.)

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company undertakes a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including lAS 18 Revenue, lAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

2.3 Changes in accounting policies and disclosures (Contd.)

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. lAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of IFRS 15 in the future will not have material impact on the disclosures or on the amounts recognised in the Company's financial statements.

Amendments to lAS 16 and lAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to lAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to lAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively.

The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to lAS 16 and lAS 38 will have a material impact on the Company's financial statements.

2.3 Changes in accounting policies and disclosures (Contd.)

Amendments to lAS 16 and lAS 41 *Agriculture: Bearer Plants*

The amendments to lAS 16 and lAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with lAS 16, instead of lAS 41. The produce growing on bearer plants continues to be accounted for in accordance with lAS 41.

The directors of the Company do not anticipate that the application of these amendments to lAS 16 and lAS 41 will have a material impact on the Company's financial statements as the Company is not engaged in agricultural activities.

Amendments to lAS 19 *Defined Benefit Plans: Employee Contributions*

The amendments to lAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to lAS 19 will have a significant impact on the Company's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below.
The amendments to IFRS 2 (i) change the definitions of “vesting condition” and “market condition”; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of “vesting condition”.

The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or lAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

2.3 Changes in accounting policies and disclosures (Contd.)

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to lAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to lAS 16 and lAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to lAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.
The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to lFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to lFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with. lAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within lAS 32.

2.4 Summary of significant accounting policies (Contd.)

The amendments to lAS 40 clarify that lAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

a) the property meets the definition of investment property in terms of lAS 40; and

b) the transaction meets the definition of a business combination under IFRS 3.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Foreign currency translation

The financial statements of the Bank are presented in Mongolian Tugrug (MNT), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Other operating income' in the statement of comprehensive income. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as currency forwards and swaps to manage its exposure to market risks. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Other operating income'.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(ii) Derivatives recorded at fair value through profit or loss (Contd.)

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the statement of comprehensive income.

(iii) Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in ‘Net trading income’. Interest and dividend income or expense is recorded in ‘Net trading income’ according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(iv) Financial assets and financial liabilities designed at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(v) Financial assets and financial liabilities designed at fair value through profit or loss (Contd.)

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Other operating income'. Interest earned or incurred is accrued in 'Interest and similar income' or 'Interest similar expense', respectively, using the Effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

The Bank has no financial assets or liabilities designated at fair value through profit or loss as of 31 December 2014 and 2013.

(vi) Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale financial investments are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale financial investments. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income and removed from the 'Available-for-sale reserve'.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(vii) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the comprehensive income statement. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity financial investments during the following two years.

(viii) Loans and advances

This includes 'Due from banks' and 'Loans and advances to customers' which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available-for-sale financial investments.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the 'credit loss expense' in the statement of comprehensive income.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(viii) Loans and advances (Contd.)

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

(ix) Borrowed funds and subordinated loans

Borrowed funds and subordinated loans are contractual obligations to local and foreign financial institutions.

After initial measurement, borrowed funds and subordinated loans are subsequently measured at amortised cost using the EIR. The amortised cost of borrowed funds and subordinated loans is calculated using EIR by taking into account any transaction costs related to the transaction.

An analysis of the Bank's borrowed funds and subordinated loans is disclosed in Note 27 and Note 28, respectively.

(x) Due to banks

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM (Note 23).

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR.

(xi) Due to customers

This includes current, savings and time deposits from customers (Note 26).

After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(xii) Reclassification of financial assets

For a financial asset reclassified out of the 'Available-for-sale financial investments' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the statement of comprehensive income.

The Bank may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the ‘Loans and receivables’ if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement; and either:
    - the Bank has transferred substantially all the risks and rewards of the asset, or
    - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 Summary of significant accounting policies (Contd.)

Derecognition of financial assets and financial liabilities (Contd.)

(i) Financial assets (Contd.)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

The Bank derecognized certain mortgage loans in 2014 (Note 18).

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

2.4 Summary of significant accounting policies (Contd.)

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Interest and similar income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held-for-trading' and measured at fair value with any gains or losses included in 'Net trading income'.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

2.4 Summary of significant accounting policies (Contd.)

Determination of fair value (Contd.)

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 Summary of significant accounting policies (Contd.)

(i) Financial assets carried at amortised cost (Cond.)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense' in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Bank adopted the basic approach where the impairment allowances are computed on an average of historical loss experience of each risk grouping over the outstanding balance. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

2.4 Summary of significant accounting policies (Contd.)

(i) Financial assets carried at amortised cost (Cond.)

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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

2.4 Summary of significant accounting policies (Contd.)

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

‘Day 1’ profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in ‘Other operating income-net’. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive when the inputs become observable, or when the instrument is derecognised.

2.4 Summary of significant accounting policies (Contd.)

Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.
Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect the constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses (Contd.)

(i) Interest and similar income and expense (Contd.)

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

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

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

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses (Contd.)

(ii) Fee and commission income (Contd.)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with BoM and amounts due from banks on demand or with an original maturity of three months or less.

Property and equipment

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

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

2.4 Summary of significant accounting policies (Contd.)

Property and equipment (Contd.)

Depreciation of other property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	40 years
Office furniture	10 years
Computers equipment	5 years
Vehicles	10 years
Leasehold improvements	Lower of lease term or useful lives

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

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

Intangible assets

The Bank's other intangible assets include the value of computer software and licenses, software under development and patents and rights.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

2.4 Summary of significant accounting policies (Contd.)

Intangible assets (Contd.)

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software (core banking software)	2-10 years
Patents and rights	3 – 60 years

Impairment of non–financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash–generating unit’s (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.4 Summary of significant accounting policies (Contd.)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income in 'Fees and commission income' on a straight line basis over the life of the guarantee.

Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.4 Summary of significant accounting policies (Contd.)

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2.4 Summary of significant accounting policies (Contd.)

Taxes (Contd.)

(ii) Deferred tax (Contd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

'Other reserves' represents appropriations of retained earnings based on the decision of the Bank's Board of Directors. The purpose of this account is not specified at present. 'Other reserves' are used for financing the Bank's operations and cannot be used for payment of dividends.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

2.4 Summary of significant accounting policies (Contd.)

Government grants (Contd.)

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the statement of comprehensive over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Precious metals

Coins and cultural valuables are stated at the lower of cost and net realisable value.

Repossessed assets

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category. Assets that are determined better to be sold are immediately transferred to 'Properties held for sale'. Repossessed assets where the Bank is yet to determine its use are retained under this account.

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair value less costs to sell and are included in 'Other assets'.

Properties held for sale

Properties held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Repossessed assets are classified as properties held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Segment reporting

The Bank's segment reporting is based on the following operating segments: retail banking, business banking, mortgage banking and treasury.

2.4 Summary of significant accounting policies (Contd.)

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

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

Transactions with related parties

For the purposes of these financial statements, a party is considered to be related to the Bank if:

- the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
- the Bank and the party are subject to common control;
- the party is a member of key management personnel of the Bank or the Bank's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- the party is a post-employment benefit plan which is for the benefit of employees of the Bank or of any entity that is a related party of the Bank.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

All material transactions and balances with the related parties are disclosed in the relevant notes to consolidated financial statements and the detail is presented in Note 38.

3. SEGMENT INFORMATION

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking	-	Individual customer's current accounts, savings, credit and debit cards, micro business loans, consumer loans, financial leasing, eco loans, as well as payment and remittances.
Business banking	-	Commercial banking activities for SME and corporate customers provides direct debit facilities, current accounts, deposits, overdrafts, loan, trade finance and other credit facilities as well as international remittances.
Mortgage banking	-	Mortgages for purchasing residential real estate, mortgages for purchasing commercial properties and housing deposit products.
Treasury	-	Cash management and BoM securities and interbank loan and deposit, financial instruments trading.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 nor 2013.

GEOGRAPHICAL INFORMATION

All the Company's activities were carried out in Mongolia during the year ended 31 December 2014 and 2013. Therefore no geographical analysis presented.

3. SEGMENT INFORMATION (CONTD.)

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments 2014.

	Retail Banking 2014 MNT'000	Business Banking 2014 MNT'000	Mortgage Banking 2014 MNT'000	Treasury 2014 MNT'000	Unallocated 2014 MNT'000	Total 2014 MNT'000
Income						
Third party	37,345,379	73,628,735	19,542,008	(34,540,555)	327,096	96,302,663
Inter–segment	14,525,727	(16,989,656)	(6,557,501)	9,021,430	-	-
Total operating income	**51,871,106**	**56,639,079**	**12,984,507**	**(25,519,125)**	**327,096**	**96,302,663**
Credit loss expense	(4,094,505)	(24,712,463)	(969,529)	-	(110,801)	(29,887,298)
Net operating income	**47,776,601**	**31,926,616**	**12,014,978**	**(25,519,125)**	**216,295**	**66,415,365**
Results						
Net interest income (expense)	34,194,386	70,139,266	19,469,050	(26,393,545)	-	97,409,157
Net fees and commission income	3,112,637	3,486,003	72,959	-	-	6,671,599
Net trading loss	-	-	-	54,028	-	54,028
Depreciation of property and equipment	(388,229)	(127,536)	-	(4,712)	(3,734,911)	(4,255,388)
Amortisation of intangible asset	-	-	-	-	(986,182)	(986,182)
Segment profit (loss)	**44,334,355**	**29,998,036**	**12,014,979**	**(25,599,310)**	**(48,540,026)**	**12,208,034**
Income tax expense	-	-	-	-	(572,326)	(572,326)
Profit for the year	**44,334,355**	**29,998,036**	**12,014,979**	**(25,599,310)**	**(49,112,352)**	**11,635,708**
Assets						
Capital expenditures						
Property and equipment	-	-	-	-	6,506,999	6,506,999
Other intangible assets	-	-	-	-	4,371,886	4,371,886
	-	**-**	**-**	**-**	**10,878,885**	**10,878,885**

3. SEGMENT INFORMATION (CONTD.)

	Retail Banking 2014 MNT'000	Business Banking 2014 MNT'000	Mortgage Banking 2014 MNT'000	Treasury 2014 MNT'000	Unallocated 2014 MNT'000	Total 2014 MNT'000
Total assets	**465,139,500**	**633,252,115**	**215,306,042**	**373,613,998**	**385,503,772**	**2,072,815,427**
Total liabilities	**574,430,695**	**339,675,257**	**127,008,911**	**874,629,056**	**23,230,756**	**1,938,974,675**

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments in 2013.

	Retail Banking 2013 MNT'000	Business Banking 2013 MNT'000	Mortgage Banking 2013 MNT'000	Treasury 2013 MNT'000	Unallocated 2013 MNT'000	Total 2013 MNT'000
Income						
Third party	27,190,350	57,731,724	17,970,325	(11,081,601)	607,219	92,418,017
Inter–segment	12,934,108	(18,032,086)	(5,855,172)	10,953,150	-	-
Total operating income	**40,124,458**	**39,699,638**	**12,115,153**	**(128,451)**	**607,219**	**92,418,017**
Credit loss expense	(876,143)	(8,667,401)	(137,952)	-	(25,144)	(9,706,640)
Net operating income	**39,248,315**	**31,032,237**	**11,977,201**	**(128,451)**	**582,075**	**82,711,377**
Results						
Net interest income/(expense)	25,014,927	54,870,776	17,933,760	(17,129,360)	-	80,690,103
Net fees and commission income	2,127,841	2,852,849	36,567	-	-	5,017,257
Net trading loss	-	-	-	(2,277,076)	-	(2,277,076)
Depreciation of property and equipment	(368,636)	(130,848)	-	(3,913)	(3,207,097)	(3,710,494)
Amortisation of intangible asset	-	-	-	-	(816,248)	(816,248)

3. SEGMENT INFORMATION (CONTD.)

	Retail Banking 2013 MNT'000	Business Banking 2013 MNT'000	Mortgage Banking 2013 MNT'000	Treasury 2013 MNT'000	Unallocated 2013 MNT'000	Total 2013 MNT'000
Segment profit/(loss)	**34,362,176**	**29,445,687**	**11,977,201**	**(199,226)**	**(45,693,254)**	**29,892,584**
Income tax expense	-	-	-	-	(5,520,275)	(5,520,275)
Profit for the year	**34,362,176**	**29,445,687**	**11,977,201**	**(199,226)**	**(51,213,529)**	**24,372,309**
Assets						
Capital expenditures:						
Property and equipment	-	-	-	-	8,545,288	8,545,288
Other intangible assets	-	-	-	-	1,986,179	1,986,179
	-	-	-	-	**10,531,467**	**10,531,467**
Total assets	**338,228,619**	**530,366,530**	**160,946,144**	**458,484,858**	**323,458,441**	**1,811,484,592**
Total liabilities	**484,833,999**	**230,444,262**	**136,983,091**	**819,990,003**	**17,028,193**	**1,689,279,548**

3. SEGMENT INFORMATION (CONTD.)

A reconciliation of total segment profit, excluding unallocated income & expenses, before tax to total profit before tax is provided as follows:

	2014 MNT'000	2013 MNT'000
Total segment profit before tax	60,748,060	75,585,838
Corporate personnel cost	(24,980,910)	(24,381,517)
Corporate administrative cost	(23,775,411)	(21,893,811)
Other operating income	327,096	607,218
Amortisation of deferred grant	-	-
Impairment loss on loan and other assets	(110,801)	(25,144)
	12,208,034	**29,892,584**

Reportable segments' assets are reconciled to total assets as follows:

	2014 MNT'000	2013 MNT'000
Total segment assets	1,687,311,655	1,488,026,151
Cash and balances with BoM	187,780,433	238,614,870
Due from banks	138,422,940	39,146,611
Other assets	6,602,101	4,293,565
Properties held for sale	10,727,557	5,105,763
Property and equipment	31,241,651	29,595,235
Intangible assets	8,407,675	5,666,416
Deferred tax asset	2,321,415	1,035,981
Total assets as per statement of financial position	**2,072,815,427**	**1,811,484,592**

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2014 MNT'000	2013 MNT'000
Total segment liabilities	1,915,743,919	1,672,251,355
Deferred grants	1,622,531	1,957,277
Other liabilities	21,206,909	13,142,756
Income tax payable	401,316	1,928,160
	1,938,974,675	**1,689,279,548**

4. INTEREST AND SIMILAR INCOME

	2014 MNT'000	2013 MNT'000
Loans and advances to customers	207,475,709	157,344,867
Financial investments – held-to-maturity	28,694,129	21,627,677
Due from banks	1,157,533	1,181,734
Cash and balances with BoM	1,025,186	793,233
Reverse repurchase agreements	103,290	74,836
	238,455,847	**181,022,347**

5. INTEREST AND SIMILAR EXPENSE

	2014 MNT'000	2013 MNT'000
Due to customers	74,218,518	55,071,947
Borrowed funds	46,736,416	27,279,114
Due to banks	12,760,325	13,251,667
Subordinated loans	7,212,805	4,372,635
Repurchase agreements	118,626	356,881
	141,046,690	**100,332,244**

6. NET FEES AND COMMISSION INCOME

	2014 MNT'000	2013 MNT'000
Fees and commission income		
Remittance and other service fees	3,923,064	3,285,223
Card related fees and commissions	2,274,754	1,520,475
Account service fees and commissions	943,739	727,600
Credit related fees and commissions	549,423	266,328
	7,690,980	**5,799,626**
Fees and commission expenses		
Bank service charges	459,738	449,359
Card transaction charges	559,643	333,010
	1,019,381	**782,369**
	6,671,599	**5,017,257**

7. NET TRADING INCOME

	2014 MNT'000	2013 MNT'000
Foreign exchange	(85,746)	2,187,248
Equities(Loss)	-	(10,463)
Debt securities	139,774	391,509
	54,028	**2,568,294**

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

Equities gain/ (loss) includes the results of trading, and changes in the fair value of equity securities.

Debt securities income includes the results of buying and selling and changes in the fair value of debt securities.

8. OTHER OPERATING INCOME – NET

	2014 MNT'000	2013 MNT'000
Non-trade foreign exchange (loss)/gain	(8,201,037)	3,479,466
Rental income	86,896	138,669
(Loss)/Gain on disposal of property and equipment	(466)	21,382
Gain on disposal of property held for sale (Note 20)	61,029	9,819
Others	221,457	493,027
	(7,832,121)	**4,142,363**

9. CREDIT LOSS EXPENSE

	2014 MNT'000	2013 MNT'000
Loans and advances to customers (Note 18)		
Small and medium enterprises (SME) loans	24,772,728	8,676,065
Mortgage loans	904,538	153,017
Micro business loans	1,994,532	388,995
Consumer loans	996,057	559,541
Finance leases	307,033	(102,199)
Others	801,609	6,077
	29,776,497	**9,681,496**
Other assets (Note 19)	110,801	25,144
	29,887,298	**9,706,640**

10. OPERATING EXPENSES

	2014 MNT'000	2013 MNT'000
Personnel expenses*	24,980,910	24,381,517
Professional fees	5,986,084	6,186,215
Depreciation of property and equipment (Note 21)	4,255,388	3,710,494
Advertising	2,318,285	3,465,908
Rental of premises	4,630,001	3,273,717
Deposit insurance expense	1,916,535	1,910,682
Armored guard and security	2,010,998	1,859,445
Communications	1,438,882	1,308,366
Entertainment	785,399	1,261,069
Other operating expenses	1,132,441	1,932,759
Amortisation of intangible assets (Note 22)	986,182	816,248
Transportation	677,307	786,954
Travelling expenses	763,036	714,995
Stationery	855,125	695,697
Utilities	596,893	536,313
Repairs and maintenance	416,558	427,234
Membership and audit expenses	276,346	352,207
Insurance	298,447	259,566
Donations	72,949	123,494
Penalty	11,149	59,105
Loan collection expenses	36,920	49,359
Impairment loss on foreclosed properties (Note 19)	418,496	31,314
Property and equipment written-off (Note 21)	246,878	69
	55,111,209	**54,142,727**

*** Personnel expenses**		
Salaries, wages and bonus	21,697,627	21,460,158
Contribution to social and health fund	2,574,625	2,170,986
Amortisation of contribution to defined contribution pension plan	643,528	665,024
Staff training	65,130	85,349
	24,980,910	**24,381,517**

11. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2014 and 2013 are:

	2014 MNT'000	2013 MNT'000
Current tax:		
Current income tax	1,857,760	5,871,956
Deferred tax		
Relating to origination and reversal of temporary differences (Note 23)	(1,285,434)	(351,681)
	572,326	**5,520,275**

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% (2013: 10%) for the first MNT 3 billion (2013: MNT 3 billion) of taxable income, and 25% (2013: 25%) on the excess of taxable income over MNT 3 billion (2013: MNT 3 billion). Interest income on government bonds is not subject to income tax. Impairment losses for loans and advances are deductible for income tax purposes.

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

	2014 MNT'000	2013 MNT'000
Profit before taxation	12,208,034	29,892,584
Tax at statutory tax rate of 25% (2013: 25%)	3,052,009	7,473,146
Effect of income tax subject to lower tax rate	(450,000)	(450,000)
Effect of income not subject to tax	(3,969,949)	(1,575,068)
Effect of expenses not deductible for tax purposes	1,940,266	72,197
Tax expense for the year	**572,326**	**5,520,275**

The effective income tax rate for 2014 is 4.69% (2013: 18.47%)

12. EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	2014 MNT'000	2013 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Bank	11,635,708	24,372,309

	2014	2013
Weighted average number of ordinary shares for basic and diluted earnings per share	20,353,656	20,353,656

Earnings per share

	2014 MNT	2013 MNT
Equity holder of the Bank for the year:		
Basic earnings per share	571.68	1,197.44
Diluted earnings per share	571.68	1,197.44

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

13. CASH AND BALANCES WITH BANK OF MONGOLIA

	2014 MNT'000	2013 MNT'000
Current account with BoM	145,990,603	202,049,732
Cash on hand	41,789,830	36,565,138
	187,780,433	**238,614,870**

Current accounts with BoM, are maintained in accordance with BoM's regulations. The balances maintained with BoM are determined at not less than 12.0% (2013: 12.0 %) of customer deposits based on average balance of two (2) weeks. As at 31 December 2014, the average reserve required by BoM for that period of 2 weeks was MNT 87,457.48 million (2013: MNT 71,715.80 million) for local currency and MNT 23,110.78 million (2013: MNT 17,768.70 million) for foreign currency maintained on current accounts with BoM.

14. DUE FROM BANKS

	2014 MNT'000	2013 MNT'000
Placements with other banks and financial institutions	**138,422,940**	**121,851,611**

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

15. REVERSE REPURCHASE AGREEMENTS

	2014 MNT'000	2013 MNT'000
Reverse repurchase agreements	**152,799,124**	**29,991,255**

The Bank purchased BoM securities with agreement to sell them at specific future date. The duration of the reverse repurchase agreement was 2 days. The fair value of the bills approximates its carrying amount as at 31 December 2014 and 2013.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Assets 2014 MNT'000	Liabilities 2014 MNT'000	Notional amount 2014 MNT'000
Derivatives held for trading			
Currency swaps			
	1,469,087	2,427,739	**341,293,600**
	1,469,087	**2,427,739**	**341,293,600**

	2013 MNT'000	2013 MNT'000	2013 MNT'000
Derivatives held for trading			
Currency forwards	596,833	626,804	1,109,074
Currency swaps	40,002	-	1,109,074
	636,835	**626,804**	2,218,148

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTD.)

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk (see also Note 39.4).

Forward contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time, based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Fair values

Disclosures concerning the fair value of derivatives are provided in Note 35.

17. FINANCIAL INVESTMENTS

	2014 MNT'000	2013 MNT'000
Available-for-sale:		
Fixed income investments		
Senior residential mortgage backed securities ("RMBS"), at fair value	-	13,250,686
Junior RMBS, at fair value	6,929,591	1,474,508
	6,929,591	**14,725,194**
Equity investments		
Unquoted equities, at cost	821,800	**775,500**
	7,751,391	**15,500,694**
Held-to-maturity:		
BoM treasury bills, at amortised cost	79,862,222	224,745,335
Government treasury bills, at amortised cost	116,442,440	89,661,748
Government bonds, at amortised cost	15,289,735	15,175,733
	211,594,397	**329,582,816**

The Senior and Junior "RMBS" are interest bearing long term securities issued by Mongolian Mortgage Corporation (See Note 18).

Unquoted equities represent investment made in unquoted companies. Investments in unquoted shares are recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

BoM treasury bills ("BoM bills") and Government treasury bills are interest bearing short-term bills issued at a discount.

The Government bonds are interest bearing long term bills issued at discount.

18. LOANS AND ADVANCES TO CUSTOMERS

	2014 MNT'000	2013 MNT'000
SME loans	666,672,078	541,851,743
Mortgage loans	227,531,527	180,158,347
Micro business loans	217,069,051	150,561,456
Consumer loans	108,339,617	100,956,245
Finance leases	30,985,839	22,992,426
Others	94,675,716	40,221,477
	1,345,273,828	**1,036,741,694**
Accrued interest receivables	16,545,076	11,268,515
Gross loans and advances	1,361,818,904	1,048,010,209
Less: Allowance for impairment losses	(48,121,248)	(18,468,915)
Net loans and advances	**1,313,697,656**	**1,029,541,294**

Transferred financial assets that are derecognised in their entirety

On 8 July 2014 and 6 November 2014, the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate mortgage loans to a wholly owned special purpose company of Mongolian Mortgage Corporation in exchange for RMBS. The Bank derecognized the loan portfolio and recognized the Senior RMBS and Junior RMBS received as financial assets. The Bank continues to service these loans and earns 2.5% servicer fee from MMC. The carrying amount of the transferred loan portfolio as of the transferred date was MNT 52,973 million. The Senior and Junior RMBS recognized as financial assets amounted to MNT 47,676 million and MNT 5,297 million respectively (See Note 17).

18. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers

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

	SME MNT'000	Mortgage MNT'000	Micro Business MNT'000	Consumer MNT'000	Finance Lease MNT'000	Others MNT'000	Total MNT'000
At 31 December 2014							
At 1 January 2014	15,841,586	651,405	812,787	880,065	204,249	78,824	18,468,916
Charge for the year (Note 9)	28,844,157	1,176,711	2,312,248	1,407,654	374,401	833,836	34,949,007
Recoveries (Note 9)	(4,071,429)	(272,173)	(317,716)	(411,597)	(67,368)	(32,227)	(5,172,510)
Amounts written off	(2)	(11,222)	(56,162)	(39,859)	(5,710)	(11,210)	(124,165)
At 31 December 2014	**40,614,312**	**1,544,721**	**2,751,157**	**1,836,263**	**505,572**	**869,223**	**48,121,248**
Individual impairment	14,590,596	-	-	-	-	-	14,590,596
Collective impairment	26,023,716	1,544,721	2,751,157	1,836,263	505,572	869,223	33,530,652
	40,614,312	**1,544,721**	**2,751,157**	**1,836,263**	**505,572**	**869,223**	**48,121,248**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**23,648,847**	**-**	**-**	**-**	**-**	**-**	**23,648,847**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

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

A reconciliation of the allowance for impairment losses for loans and advances to customers by type is as follows (Contd.):

	SME MNT'000	Mortgage MNT'000	Micro Business MNT'000	Consumer MNT'000	Finance Lease MNT'000	Others MNT'000	Total MNT'000
At 31 December 2013							
At 1 January 2013	7,165,521	501,501	466,697	384,665	337,110	72,747	8,928,241
Charge for the year (Note 9)	12,716,496	486,221	598,110	674,616	71,843	29,676	14,576,962
Recoveries (Note 9)	(4,040,431)	(333,204)	(209,115)	(115,075)	(174,042)	(23,599)	(4,895,466)
Amounts written off	-	(3,113)	(42,905)	(64,141)	(30,663)	-	(140,822)
At 31 December 2013	**15,841,586**	**651,405**	**812,787**	**880,065**	**204,248**	**78,824**	**18,468,915**
Individual impairment	10,967,927	-	-	-	1,011	-	10,968,938
Collective impairment	4,873,659	651,405	812,787	880,065	203,237	78,824	7,499,977
	15,841,586	**651,405**	**812,787**	**880,065**	**204,248**	**78,824**	**18,468,915**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**17,090,777**	**-**	**-**	**-**	**18,350**	**-**	**17,109,127**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

The fair value of the collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2014 amounts to MNT 23,911 million (2013: MNT 11,742 million). These values are estimated by management based on the latest available information. For a more detailed description, see 'Collateral and other credit enhancement' under Note 39.

The Bank participated in a syndicated loan with a foreign financial institution in 2014. This loan is included as part of SME loans. The Bank is the lead arranger of the transaction with a syndication participation of 50%.

19. OTHER ASSETS

	2014 MNT'000	2013 MNT'000
Other assets	1,517,977	1,224,494
Less: Allowance for impairment losses	(139,084)	(49,484)
	1,378,893	**1,175,010**
Foreclosed properties	1,271,234	328,143
Less: Allowances for impairment losses	(505,694)	(87,198)
	765,540	**240,945**
Consumables and other office supplies	1,289,142	1,249,561
Prepaid expenses	2,462,894	1,450,274
Deposits	612,504	152,904
Precious metals	93,128	93,128
	4,457,668	**2,945,867**
Total Other assets	**6,602,101**	**4,361,822**
Impairment allowance for other assets		
At 1 January	49,484	33,544
Charge for the year (Note 9)	110,801	25,144
Written off	(21,201)	(9,204)
At 31 December	**139,084**	**49,484**
Impairment allowance for foreclosed properties		
At 1 January	87,198	55,884
Charge for the year (Note 10)	2,204,565	56,035
Recoveries (Note 10)	(1,786,069)	(24,721)
Written off	-	-
At 31 December	**505,694**	**87,198**

20. PROPERTIES HELD FOR SALE

The Bank has sold or is in the process of selling certain properties and repossessed assets with details as follows:

	2014 MNT'000	2013 MNT'000
At 1 January	5,105,763	1,031,577
Add: Foreclosed properties classified as held for sale	6,354,292	4,197,351
Less: Sold during the year	(732,498)	(123,165)
At 31 December	**10,727,557**	**5,105,763**

Proceeds from the sale of buildings during the year were MNT 811 million (2013: MNT 133 million). The gain from the sale of those buildings amounted to MNT 61.0 million (2013: MNT 9.8 million) and is recorded as part of 'Other operating income' (Note 8).

21. PROPERTY AND EQUIPMENT

	Leasehold improvements	Premises	Vehicles	Office furniture	Computer equipment and others	Land held for future development	Construction in progress	Total
At 31 December 2014	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
At cost								
At 1 January 2014	1,690,075	14,917,348	3,261,645	3,249,486	17,272,699	2,091,896	330,864	42,814,013
Additions	902,732	113,287	716,813	295,002	2,906,392	-	1,572,773	6,506,999
Write-off	(464,703)	(96,529)	-	(157,874)	(719,746)	-	-	(1,438,852)
Disposals	-	(157,419)	(189,494)	(109,692)	(179,522)	-	(119,062)	(755,189)
Reclassification	-	96,938	-	467,102	-	118,896	(694,040)	(11,104)
At 31 December 2014	2,128,104	14,873,625	3,788,964	3,744,024	19,279,823	2,210,792	1,090,535	47,115,867
Accumulated depreciation								
At 1 January 2014	993,865	1,725,119	1,137,652	1,255,391	8,106,751	-	-	13,218,778
Charge for the year (Note 10)	339,636	453,342	365,291	320,381	2,776,738	-	-	4,255,388
Write-off	(270,149)	(96,528)	-	(105,941)	(719,356)	-	-	(1,191,974)
Disposals	-	(36,047)	(129,349)	(58,172)	(173,304)	-	-	(396,872)
Reclassification	-	(11,104)	-	-	-	-	-	(11,104)
At 31 December 2014	1,063,352	2,034,782	1,373,594	1,411,659	9,990,829	-	-	15,874,216
Net Carrying amount at 31 December 2014	**1,064,752**	**12,838,843**	**2,415,370**	**2,332,365**	**9,288,994**	**2,210,792**	**1,090,535**	**31,241,651**

21. PROPERTY AND EQUIPMENT (CONTD.)

	Leasehold improvements	Premises	Vehicles	Office furniture	Computer equipment and others	Land held for future development	Construction in progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2013								
At cost								
At 1 January 2013	1,583,933	12,699,028	3,180,180	3,067,503	12,910,034	-	1,615,334	35,056,012
Additions	48,724	95,258	271,078	250,756	4,669,743	2,091,896	1,117,833	8,545,288
Write-off	-	(2,083)	(96,671)	(18,587)	(166,623)	-	(65)	(284,029)
Disposals	-	(167,900)	(92,942)	(54,018)	(160,707)	-	(27,691)	(503,258)
Reclassification	57,418	2,293,045	-	3,832	20,252	-	(2,374,547)	-
At 31 December 2013	1,690,075	14,917,348	3,261,645	3,249,486	17,272,699	2,091,896	330,864	42,814,013
Accumulated depreciation								
At 1 January 2013	644,283	1,391,422	992,567	1,013,635	6,021,787	-	-	10,063,694
Charge for the year (Note 10)	349,582	338,227	308,258	298,345	2,416,082	-	-	3,710,494
Write-off	-	(2,081)	(96,671)	(12,471)	(172,737)	-	-	(283,960)
Disposals	-	(2,449)	(66,502)	(44,118)	(158,381)	-	-	(271,450)
At 31 December 2013	993,865	1,725,119	1,137,652	1,255,391	8,106,751	-	-	13,218,778
Net carrying amount at 31 December 2013	**696,210**	**13,192,229**	**2,123,993**	**1,994,095**	**9,165,948**	**2,091,896**	**330,864**	**29,595,235**

22. INTANGIBLE ASSETS

	Patents and Rights MNT'000	Computer software MNT'000	Software under development MNT'000	Total MNT'000
At 31 December 2014				
At cost				
At 1 January 2014	131,433	6,782,171	1,334,192	8,247,796
Additions	355,251	1,064,672	2,951,963	4,371,886
Write-off	(218,430)	(97,800)	(641,981)	(958,211)
Reclassification	3,182,339	(862,550)	(2,921,768)	(601,979)
At 31 December 2014	3,450,593	6,886,493	722,406	11,059,492
Accumulated depreciation				
At 1 January 2014	54,158	2,527,222	-	2,581,380
Charge for the year (Note 10)	381,712	604,470	-	986,182
Write-off	(217,896)	(95,870)	-	(313,766)
Reclassification	680,316	(1,282,295)	-	(601,979)
At 31 December 2014	898,290	1,753,527	-	2,651,817
Net carrying amount	**2,552,303**	**5,132,966**	**722,406**	**8,407,675**
At 31 December 2013				
At cost				
At 1 January 2013	115,394	6,057,348	91,100	6,263,842
Additions	18,264	724,823	1,243,092	1,986,179
Disposals	(2,225)	-	-	(2,225)
At 31 December 2013	131,433	6,782,171	1,334,192	8,247,796
Accumulated depreciation				
At 1 January 2013	43,942	1,721,332	-	1,765,274
Charge for the year (Note 10)	10,358	805,890	-	816,248
Disposals	(142)	-	-	(142)
At 31 December 2013	54,158	2,527,222	-	2,581,380
Net carrying amount	**77,275**	**4,254,949**	**1,334,192**	**5,666,416**

23. DEFERRED TAX ASSET

	2014 MNT'000	2013 MNT'000
At 1 January	1,035,981	684,300
Recognised in statement of comprehensive income (Note 11)	1,285,434	351,681
At 31 December	**2,321,415**	**1,035,981**

	Deferred tax liability MNT'000	Deferred tax asset MNT'000	Net deferred asset/(liability) MNT'000
As at 31 December 2014			
Property and equipment			
-accelerated tax depreciation	449,878	-	(449,878)
Loans and advances to customers			
-deferral of loan origination fees	-	1,419,807	1,419,807
Derivative financial instruments			
-SWAP revaluation	-	1,351,486	1,351,486
	449,878	**2,771,293**	**2,321,415**
As at 31 December 2013			
Property and equipment -accelerated tax depreciation	(322,492)	-	(322,492)
Loans and advances to customers -deferral of loan origination fees	-	1,358,473	1,358,473
	(322,492)	**1,358,472**	**1,035,981**

24. DUE TO BANKS

	2014 MNT'000	2013 MNT'000
Deposits from other banks and financial institutions	**34,317,691**	**141,706,978**

25. REPURCHASE AGREEMENTS

	2014 MNT'000	2013 MNT'000
Repurchase agreements	**179,763,676**	**162,428,300**

The Bank sold BoM bills with an agreement to repurchase them in the future. The repurchase agreement duration was 2 days. The fair value of the bills approximate the carrying amount at 31 December 2014 and 2013.

26. DUE TO CUSTOMERS

	2014 MNT'000	2013 MNT'000
Government deposits		
- Current accounts	4,279,431	1,420,139
- Demand deposits	537,795	913
Private sector deposits		
- Current accounts	81,369,132	78,415,377
- Demand deposits	31,524,892	20,977,697
- Time deposits	104,630,957	57,573,967
Individual deposits		
- Current accounts	16,763,330	10,265,726
- Demand deposits	116,161,964	111,788,573
- Time deposits	442,481,512	364,040,791
	797,749,013	**644,483,183**

Included in 'Due to customers' were deposits of MNT 8,718 million (2013: MNT 8,771 million) held as collateral for irrevocable commitments under financial guarantees as at 31 December 2014 and 2013.

27. BORROWED FUNDS

	2014 MNT'000	2013 MNT'000
Borrowed funds from foreign financial institutions		
European Bank for Reconstruction and Development ("EBRD")	69,649,344	49,916,201
Asian Development Bank	56,045,929	-
Microfinance Enhancement Facility S.A SICAV -SIF (Cyrano pool) ("MEF")	47,856,073	33,635,470
OPEC Fund for International Development ("OFID")	37,269,192	-
Netherlands Development Finance Company ("FMO")	36,110,652	9,192,435
Development Bank of Austria ("OeEB")	28,543,013	-
Societe De Promotion Et De Participation Pour La Cooperation Economique S.A ("PROPARCO")	28,363,662	24,771,289
Deutsche Investitions- Und Entwicklungsgesellschaft MBH ("DEG")	28,186,167	32,845,067
Global Climate Partnership Fund S.A., SICAV-SIF ("GCPF")	28,139,170	24,625,039
Credit Suisse Microfinance Fund Management Company/ responsAbility Global Microfinance Fund ("CSMFMC/ RGMF")	24,686,080	24,979,728
Micro, Small and Medium Enterprises Bonds SA	18,396,177	16,118,897
Oikocredit, Ecumenical Development Co-operative Society U.A ("Oikocredit")	14,006,811	19,788,147
Triodos Fair Share Fund	11,962,985	10,983,834
Triodos Sicav II - Triodos Microfinance Fund	11,962,985	11,097,941
Bank Im Bistum Essen EG ("BiB")	11,393,609	-
responsAbility SICAV(Lux) MikroFinanz-Fonds	11,382,843	10,814,298
International Investment Bank ("IIB")	10,030,526	13,084,623
Calvert Social Investment Foundation, Inc	9,666,637	-
International Netherlands Group ("ING")	9,094,640	7,895,362
VDK Spaarbank	7,704,086	8,333,673
Capital Gestion-Microfinance	7,573,517	6,625,913
Microfinance Initiative for Asia ("MIFA") Debt Fund SA, SICAV-SIF	7,139,360	8,307,215
KCD Mikrofinanzfonds	5,717,139	5,015,231
SEB Microfinance fund	5,205,450	5,181,402
Guevoura Fund	4,698,621	-
Kreditanstalt fuer Wiederanfbau ("KfW")	3,403,570	2,894,906
responsAbility SICAV (Lux) Financial Inclusion Fund	2,840,951	2,492,005
Finethic Microfinance	1,941,652	1,698,416
responsAbility SICAV (Lux) Microfinance Leaders	1,908,070	2,503,664
Wallberg Invest S.A	1,891,604	1,654,502
Dual Return Fund SICAV	1,791,159	3,073,722
KIVA	1,135,809	1,560,564

27. BORROWED FUNDS (CONTD.)

	2014 MNT'000	2013 MNT'000
Borrowed funds from foreign financial institutions (contd.)		
Emerging Sustainable Funds	684,526	681,178
RosEuroBank	-	18,221,666
Global Microfinance Facility	-	16,754,956
SNS IMF/Triple Jump	-	7,616,781
ASN-Novib Funds	-	4,151,933
Sumitomo Mitsui Bank	-	3,894,463
Atlantic Forfaitierungs AG	-	563,135
Vittana	-	52,132
Triodos Fair Share Fund	-	1,710,939
Total borrowed funds from foreign financial institutions	**546,382,009**	**392,736,727**
Borrowed funds from government organisations		
BoM	142,768,473	207,801,244
SME Development Fund	83,694,687	27,600,378
Ministry of Finance	9,860,021	11,292,746
Ministry of Finance/Japan Bank for International Cooperation	12,394,584	10,852,627
Asian Development Bank	2,248,857	4,050,048
Rural Poverty Reduction Program	2,073,412	2,728,280
Employment Generation Support Fund	2,476,077	2,470,907
UB City and SME development Fund	1,080,335	2,082,489
Micro Finance Development Fund	503,124	1,508,938
Total borrowed funds from government organisations	**257,099,570**	**270,387,657**
Borrowed funds from other company		
Oyu Tolgoi LLC	78,879	1,243,820
Total borrowed funds	**803,560,458**	**664,368,204**

All borrowed funds from government organisations are related to the Government of Mongolia.

27. BORROWED FUNDS (CONTD.)

The Bank has not prepaid any of its own debt during the year (2013: Nil). The Bank has not had any defaults on principal or interest payments with regards to all liabilities in 2014 and 2013.

Most of the borrowing agreements require compliance with certain debt covenants, which can be grouped in the following categories:

- capital related ratios (such as risk weighted capital adequacy ratio, solvency ratio, ratio between tier 1 capital and total capital)
- financial risks related ratios (such as maturity mismatches, currency mismatches, aggregate foreign currency open position, single currency foreign exchange risk ratio, negative liquidity gap ratio, aggregate interest rate risk ratio and interest rate risk ratio);
- credit related ratios (such as portfolio at risk, open loan exposure ratio, write off ratio, single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio);
- other ratios (deposits to loans ratio, interest coverage ratio, shareholding in single entity, fixed assets to total assets, fixed assets plus equity investments ratio, overhead ratio etc.).

In case of non-compliance to covenants, i.e., in the event of default and such event of default is subsisting, the borrowing becomes immediately payable on demand. For this reason, quarterly monitoring of debt covenants is carried out by relevant departments and officers (Finance and Accounting Division, including Chief Finance Officer, Integrated Risk Management Division, Treasury, Credit Administration Division etc.). In case of anticipated or noted non-compliance with certain covenants, appropriate action is taken by management, such as requesting waiver on breached covenants or negotiating new agreement to change the limits (ratios).

As of 31 December 2014, The Bank has complied with debt covenants on all borrowings except on one senior loan with an outstanding balance of MNT 28,139 million on which the Bank's management has obtained a waiver until 30 September 2015.

28. SUBORDINATED LOANS

	2014 MNT'000	2013 MNT'000
Netherland Development Finance Company ("FMO")	-	25,098,919
International Finance Corporation	84,842,434	22,328,823
KfW, Frankfurt am Main	7,407,671	6,242,365
Incofin Impulse Microfinance Investment Fund	5,675,237	4,967,779
	97,925,342	**58,637,886**

Subordinated convertible loan from International Finance Corporation (IFC)

(i) On 30 June 2010, the Bank received subordinated convertible debt of USD 5,000,000 from IFC, which is due for repayment on 15 December 2018. According to the agreement, conversion option can be exercised only if the existing shareholders of the Bank's parent Company TenGer make a decision on the increase in share capital of TenGer Financial Group LLC and some of these shareholders decide not to use their pre-emptive rights. In such situation, IFC is entitled to purchase remaining shares of TenGer at the same price offered to shareholders. IFC is entitled to make decision on whether shares are to be purchased for cash consideration or through requesting the Bank to repay the outstanding balance of subordinated debt.

The new shares to be acquired by IFC under the conversion option shall be common shares with full voting powers, shall rank pari passu to all other shares of TenGer Financial Group LLC and shall not exceed 20% of the aggregate share capital of TenGer Financial Group LLC.

The Bank cannot repay the subordinated convertible loan prior to the maturity date, except in the case of revocation of its banking license, insolvency, liquidation or restructuring and with the prior approval of BoM.

The loan carries a variable interest rate of 6-month LIBOR USD plus a margin of 6.50% per annum. The EIR as of 31 December 2014 is 6.839% (2013: 6.915%) per annum. The debt ranks after all other creditors in case of liquidation.

(ii) In June 2012, the Bank entered into a Subordinated Loan Agreement in the amount of USD 40,000,000 with IFC Capitalization Fund. The Bank obtained the loan in 3 tranches: USD 9,000,000 in December 2012 at a fixed rate of 8.955% per annum, USD 31,000,000 in 2014 at a variable interest rate of 6-month LIBOR USD plus a margin of 7.40% (2014: 7.72%). The loan is due for repayment in December 2020.

28. SUBORDINATED LOANS (CONTD.)

Subordinated convertible loans from KfW, Frankfurt am Main ("KfW")

The Bank received USD 2,747,230 equivalent of EUR 1,800,000 under a 10-year subordinated convertible loan from KfW. The subordinated convertible loan has a maximum interest rate to be capped at 9.00% per annum. The EIR at the reporting date is 5.688% (2013: 5.844%) per annum.

The subordinated convertible loan can be fully repaid by cash on 20 July 2017 or the be converted into equity shares of the Bank's parent company TenGer Financial Group LLC. A conversion option can be exercised only if TenGer Financial Group LLC's shareholders approve issue of additional share capital and some of the existing shareholders of TenGer Financial Group LLC decide not to use their pre-emptive rights. In such case, TenGer Financial Group LLC has the obligation to offer the remaining shares to KfW at the same price as to the existing shareholders. The price of new shares to be issued shall be fixed by the Shareholders Meeting of TenGer Financial Group LLC that authorizes the capital increase. In such circumstances, KfW can exercise conversion option either through purchase of shares for cash consideration or through requesting the Bank to repay the outstanding balance of subordinated debt, which would enable KfW to use returned funds to purchase shares of TenGer Financial Group LLC. The amount of consideration to be paid by KfW for acquisition of shares of TenGer Financial Group LLC is the same under both options.

The new shares to be acquired by KfW under the conversion option shall be common shares with full voting powers, shall rank pari passu to all other shares of TenGer Financial Group LLC and shall not exceed 20% of the aggregate shall capital of TenGer Financial Group LLC.

The Bank cannot repay the subordinated convertible loan prior to the maturity date, except in the case of revocation of its banking license, its insolvency, liquidation or restructuring and with the prior approval of BoM. The debt ranks after all other creditors in case of liquidation.

Subordinated loan from Incofin Impulse Microfinance Investment Fund

The subordinated loan is to be repaid by cash in full amount on 84th month after the first disbursement date, which is December 2016. The loan bears interest at a rate of 9.25% (2013: 9.25%) per annum.

29. DEFERRED GRANTS

	2014 MNT'000	2013 MNT'000
Micro Energy Credit Corporation ("MEC")	895,938	954,444
Foundation EKO	451,985	657,433
Clean Air Fund	169,194	280,543
The Small Enterprise Education and Promotion Network ("SEEP")	67,684	59,374
International Finance Corporation ("IFC")	31,479	-
Women's World Banking ("WWB")	3,247	2,848
Consultative Group to Assist the Poorest ("CGAP")	3,004	2,635
	1,622,531	**1,957,277**

Movements in deferred grants are presented as follows:

	2014 MNT'000	2013 MNT'000
Balance at beginning of year	1,957,277	1,576,638
Received during the year	569,132	1,704,573
Recognised in statement of comprehensive income	(903,878)	(1,323,934)
Balance at end of year	**1,622,531**	**1,957,277**

30. OTHER LIABILITIES

	2014 MNT'000	2013 MNT'000
Payables	15,126,101	10,732,051
Delay on clearing settlement	6,080,769	2,409,462
Dividends payable (Note 33)	39	1,243
	21,206,909	**13,142,756**

31. ORDINARY SHARES

	Number of shares of MNT 1,000 each		Amount	
	2014	2013	2014 MNT'000	2013 MNT'000
At 1st January/31 December	20,353,656	20,353,656	20,353,656	20,353,656

32. OTHER RESERVES

There is no movement in other reserves during the year. At the date of this report, no policy is formalised by the Board as to the purpose of these reserves.

33. DIVIDENDS

	2014 MNT'000	2013 MNT'000
Dividends payable at 1 January	1,243	1,243
Dividends declared during the year	-	-
Dividends paid during the year	(1,204)	-
Dividends payable at 31 December (Note 30)	**39**	**1,243**

34. CASH AND CASH EQUIVALENTS

		2014 MNT'000	2013 MNT'000
Cash and balances with BoM	13	187,780,433	238,614,870
Due from banks	14	138,422,940	121,851,611
BoM treasury bills	17	79,862,222	224,745,335
Government treasury bills	17	116,442,440	89,661,748
		522,508,035	**674,873,564**
Less: Minimum reserve with BoM not available to finance the Bank's day to day operations (refer Note 13)		(110,568,265)	(89,484,500)
Less: Placement with other banks with original maturities of more than three months		(76,379,494)	-
Less: BoM Bills with original maturities of more than 3 months		-	-
Less: Government treasury bills with original maturities of more than 3 months		(42,732,781)	(65,417,281)
Total cash and cash equivalents		**292,827,495**	**519,971,783**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2014				
Financial assets				
Derivative financial instruments				
Currency swaps	-	1,469,087	-	1,469,087
Forward foreign exchange contracts	-	-	-	-
	-	**1,469,087**	**-**	**1,469,087**
Financial investments available-for-sale				
Fixed income investments	-	6,929,591	-	6,929,591
Unquoted equities	-	-	821,800	821,800
	-	**6,929,591**	**821,800**	**7,751,391**
Financial liabilities				
Derivative financial instruments				
Currency swaps	**-**	**2,427,739**	**-**	**2,427,739**
At 31 December 2013				
Financial assets				
Derivative financial instruments				
Currency swaps	-	40,002	-	40,002
Forward foreign exchange contracts	-	596,833	-	596,833
	-	**636,835**	**-**	**636,835**
Financial investments available-for-sale				
Fixed income investments	-	14,725,194	-	14,725,194
Unquoted equities	-	-	775,500	775,500
	-	**14,725,194**	**775,500**	**15,500,694**
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	**-**	**626,804**	**-**	**626,804**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Financial assets and liabilities which are not measured at fair value but whose fair values are disclosed in the fair value table

The fair value of these financial assets and liabilities are categorized under level 2 where the Bank determined the fair value based on valuation technique (eg. discounted cash flow model) using market observable inputs.

Transfers between level 1 and 2

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

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

The impact of the reasonably possible change in the fair value assumptions for level 3 financial instruments is not quantified as the investment is recorded at cost since the fair value cannot be reliably measured.

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments. Based on fair value assessments performed by the management, the estimated fair values of due from banks of more than one year approximate their carrying amounts as shown in the statement of financial position. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2014	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BoM	13	187,780,433	187,780,433
Due from banks	14	138,422,940	138,422,940
Reverse repurchase agreements	15	152,799,124	152,799,124
Derivative financial instruments	16	1,469,087	1,469,087
Financial investments -			
held-for-trading		-	-
available-for-sale	17	7,751,391	7,751,391
held-to-maturity	17	211,594,397	211,594,397
Loans and advances to customers	18	1,313,697,656	1,327,022,796
Other assets	19	1,162,016	1,162,016
		2,014,677,044	**2,028,002,184**
Financial liabilities			
Due to banks	24	34,317,691	34,317,691
Repurchase agreement	25	179,763,676	179,763,676
Due to customers	26	797,749,013	797,749,013
Derivative financial instruments	16	2,427,739	2,427,739
Borrowed funds	27	803,560,458	806,506,445
Subordinated loans	28	97,925,342	100,665,549
Other liabilities	30	13,352,137	13,352,137
		1,929,096,056	**1,934,782,250**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

As at 31 December 2013	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BoM	13	238,614,870	238,614,870
Due from banks	14	121,851,611	121,851,611
Reverse repurchase agreements	15	29,991,255	29,991,255
Derivative financial instruments	16	636,835	636,835
Financial investments -			
held-for-trading		-	-
available-for-sale	17	15,500,694	15,500,694
held-to-maturity	17	329,582,816	329,582,816
Loans and advances to customers	18	1,029,541,294	1,042,319,028
Other assets	19	814,841	814,841
		1,766,534,216	**1,779,311,950**
Financial liabilities			
Due to banks	24	141,706,978	141,706,978
Repurchase agreement	25	162,428,300	162,428,300
Due to customers	26	644,483,183	644,483,183
Derivative financial instruments	16	626,804	626,804
Borrowed funds	27	664,368,204	663,319,039
Subordinated loans	28	58,637,886	54,742,966
Other liabilities	30	13,008,046	13,008,046
		1,685,259,401	**1,680,315,316**

36. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2014 MNT'000	2013 MNT'000
Contingent liabilities		
Performance and tender guarantees	17,745,358	14,709,938
Financial guarantees	12,677,708	10,938,113
Letters of credit	19,907,191	3,815,847
	50,330,257	**29,463,898**
Commitments		
Undrawn commitments to lend	25,752,212	33,229,645
Total	**76,082,469**	**62,693,543**

Contingent liabilities

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

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Other commitments

	2014 MNT'000	2013 MNT'000
Approved and contracted for:		
Property and equipment	1,061,475	338,156
Intangible assets	52,668	44,467
Training	15,000	-
Advertisements	8,745	25,020
Consumables and other inventories	4,253	-
	1,142,141	**407,643**

36. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Operating lease commitments - Bank as lessee

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

Operating lease commitments – Bank as lessor

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

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Bank had no unresolved legal claims other than litigation with tax authorities described below.

Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, including those related to domestic transfer pricing. In case of deviation of transaction terms from market terms, the tax authorities have the right to adjust taxable items and to impose additional taxes, fines and interest penalties. Given the brief nature of the current Mongolian transfer pricing rules, the impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the entity.

36. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Tax legislation (Contd.)

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax and other areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management performs regular re-assessment of tax risks and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 39.3 Liquidity risk and funding management for the Banks contractual undiscounted repayment obligations.

At 31 December 2014	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with BoM	187,780,433	-	187,780,433
Due from banks	138,422,940	-	138,422,940
Reverse repurchase agreements	152,799,124	-	152,799,124
Derivative financial instruments	129,752	1,339,335	1,469,087
Financial investments -			
- held-for-trading	-	-	-
- available-for-sale	161,491	7,589,900	7,751,391
- held-to-maturity	206,343,519	5,250,878	211,594,397
Loans and advances to customers	555,838,730	757,858,926	1,313,697,656
Other assets	549,512	612,504	1,162,016
	1,242,025,501	**772,651,543**	**2,014,677,044**
Non financial assets			
Property and equipment	-	31,241,651	31,241,651
Intangible assets	195,244	8,212,431	8,407,675
Other assets	5,346,957	93,128	5,440,085
Properties held for sale	10,727,557	-	10,727,557
Deferred tax assets	-	2,321,415	2,321,415
	16,269,758	**41,868,625**	**58,138,383**
Total	**1,258,295,259**	**814,520,168**	**2,072,815,427**
Financial liabilities			
Due to banks	34,317,691	-	34,317,691
Repurchase agreements	179,763,676	-	179,763,676
Due to customer	623,008,720	174,740,293	797,749,013
Derivative financial instruments	1,724,251	703,488	2,427,739
Borrowed funds	314,738,003	488,822,455	803,560,458
Subordinated loans	-	97,925,342	97,925,342
Other liabilities	13,018,322	333,815	13,352,137
	1,166,570,663	**762,525,393**	**1,929,096,056**

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

At 31 December 2014	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Non financial liabilities			
Deferred grants	1,622,531	-	1,622,531
Other liabilities	3,986,656	3,868,116	7,854,772
Income tax payable	401,316	-	401,316
	6,010,503	**3,868,116**	**9,878,619**
Total	**1,172,581,166**	**766,393,509**	**1,938,974,675**
Net Position	**85,714,093**	**48,126,659**	**133,840,752**

At 31 December 2013	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with BoM	238,614,870	-	238,614,870
Due from banks	121,851,611	-	121,851,611
Reverse repurchase agreements	29,991,255	-	29,991,255
Derivative financial instruments	636,835	-	636,835
Financial investments -			
- held-for-trading	-	-	-
- available-for-sale	13,250,686	2,250,008	15,500,694
- held-to-maturity	314,407,083	15,175,733	329,582,816
Loans and advances to customers	432,757,504	596,783,790	1,029,541,294
Other assets	642,863	171,978	814,841
	1,152,152,707	**614,381,509**	**1,766,534,216**
Non financial assets			
Property and equipment	-	29,595,235	29,595,235
Intangible assets	1,334,192	4,332,224	5,666,416
Other assets	3,453,853	93,128	3,546,981
Properties held for sale	5,105,763	-	5,105,763
Deferred tax assets	-	1,035,981	1,035,981
	9,893,808	**35,056,568**	**44,950,376**
Total	**1,162,046,515**	**649,438,077**	**1,811,484,592**

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

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial liabilities			
Due to banks	126,820,078	14,886,900	141,706,978
Repurchase agreements	162,428,300	-	162,428,300
Due to customer	514,686,171	129,797,012	644,483,183
Derivative financial instruments	626,804	-	626,804
Borrowed funds	319,390,992	344,977,212	664,368,204
Subordinated loans	-	58,637,886	58,637,886
Other liabilities	9,461,435	3,546,611	13,008,046
	1,133,413,780	**551,845,621**	**1,685,259,401**
Non financial liabilities			
Deferred grants	1,957,277	-	1,957,277
Other liabilities	134,710	-	134,710
Income tax payable	1,928,160	-	1,928,160
	4,020,147	**-**	**4,020,147**
Total	**1,137,433,927**	**551,845,621**	**1,689,279,548**
Net Position	**24,612,588**	**97,592,456**	**122,205,044**

38. RELATED PARTY DISCLOSURES

The Bank is controlled by TenGer Financial Group LLC. TenGer Financial Group LLC is owned by shareholders as disclosed in Note 1.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

As at 31 December, the Bank has the following balances and transactions with related parties.

38. RELATED PARTY DISCLOSURES (CONTD.)

	2014 MNT'000	2013 MNT'000
a) Loans and advances to related companies:		
Holding company	8,778,839	7,764,896
Fellow subsidiaries	1,523,177	-
Shareholders of holding company	-	2,482,228
	10,302,016	10,247,124
Members of the Board of Directors and key management personnel of the Bank	2,116,556	1,349,988
	12,418,572	**11,597,112**

The loans and advances to related parties were secured, bore interest rates from 6.5% to 27.6% (2013: 6.5% to 27.6%) per annum and are repayable within one to 14 years. The interest income received from such loans during the financial year amounted to MNT 2,894.3 million (2013: MNT 541.1 million).

	2014 MNT'000	2013 MNT'000
b) Deposits from related companies:		
Holding company	330,566	899,935
Fellow subsidiaries	13,948,882	3,920,519
Shareholders of holding company	1,623,768	1,006,434
	15,903,216	5,826,888
Members of the Board of Directors and key management personnel of the Bank	1,486,837	541,406
	17,390,053	**6,368,294**

The deposits from the above related parties bore interest rates from 0% to 15.0% (2013: 0% to 14.6%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 481.6 million (2013: MNT 324.9 million).

38. RELATED PARTY DISCLOSURES (CONTD.)

	2014 MNT'000	2013 MNT'000
c) Loans from shareholders of TenGer Financial Group LLC:		
European Bank for Reconstruction and Development	69,649,344	49,916,201
Triodos Fair Share Fund	-	1,710,939
	69,649,344	**51,627,140**

The loans from the above shareholders of TenGer Financial Group LLC bore interest rates from 6.59% to 12.24% (2013: 6.59% to 16.73%) per annum. The interest expenses paid to such loans during the financial year amounted to MNT 4,293.50 million (2013: MNT 3,096.7 million).

	2014 MNT'000	2013 MNT'000
d) Subordinated loan from shareholder of TenGer Financial Group LLC:		
International Finance Corporation ("IFC")	**84,842,434**	**22,328,823**

The subordinated loans from the above shareholder of TenGer Financial Group LLC bore interest rates of 6.5%+6MLibor and 8.955% (2013: 6.5%+6MLibor and 8.95% per annum.) The interest expenses paid to such subordinated loans during the financial year amounted to MNT 4,516.99 million (2013: MNT 1,583.4 million).

	2014 MNT'000	2013 MNT'000
e) Security fees paid to related company:		
Fellow subsidiary	**2,008,645**	**1,861,551**

38. RELATED PARTY DISCLOSURES (CONTD.)

	2014 MNT'000	2013 MNT'000
f) Commission income from related companies:		
Holding company	1,060	2,678
Fellow subsidiaries	5,003	3,719
Shareholders of holding company	7,838	39,761
	13,901	46,158
Members of the Board of Directors and key management personnel of the Bank	5,098	4,205
	18,999	**50,363**
g) Contract fee paid to related companies:		
Holding company	3,435,550	2,954,600
Fellow subsidiaries	266,030	297,109
	3,701,580	**3,251,709**
h) Rental income from related companies:		
Fellow subsidiaries	78,048	24,844
	78,048	**24,844**

38. RELATED PARTY DISCLOSURES (CONTD.)

	2014 MNT'000	2013 MNT'000
i) Compensation of key management personnel:		
Short-term employee benefits		
Salaries	3,566,637	1,663,138
Contribution to social and health fund	387,982	182,329
	3,954,619	**1,845,467**

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2014 and 2013, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties.

39. RISK MANAGEMENT

39.1 Introduction

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The main risk inherent in the Bank’s day to day operation involves credit risk, liquidity risk, foreign currency risk, interest rate risk, prepayment risk and operation risk. Such risk could either result in a direct loss in earnings and capital or may result in constraints on the Bank’s ability to meet its objectives.

The Bank has a clearly defined risk management framework which is not designed to eliminate the risk but to optimize the risk and return trade off. The risk management framework in place is to ensure that:

(i) Individuals who manage the risks clearly understands the requirement and measurement system;
(ii) The Bank’s risk exposure is within the limits established by the Board of Directors (“BOD”);
(iii) The risk measured is in line with the business strategy as approved by the BOD;
(iv) The capital allocation is consistent with the risk of exposures; and
(v) The Bank’s performance objectives are aligned with the risk tolerance.

39. RISK MANAGEMENT (CONTD.)

39.1 Introduction (Contd.)

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. However, there are separate independent bodies responsible for managing and monitoring risks.

Board Risk Management Committee ("BRMC") and Risk Management Committee ("RMC")

The RMC sets the comprehensive risk management policies and tolerances. RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring financial risk and performance, comprehensive risk reporting and management review process. The BRMC is responsible for reviewing and approving the business strategies set by RMC.

Integrated Risk Management Division ("IRMD")

The IRMD has direct accountability for identifying, measuring, monitoring, and managing the daily financial positions and market risk. It is also primarily responsible for the credit portfolio risk, liquidity risk and operational risk of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting system

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

39. RISK MANAGEMENT (CONTD.)

39.1 Introduction (Contd.)

Risk measurement and reporting system (Contd.)

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, BRMC, RMC, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes . On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A monthly briefing is given to the Executive Committee and all other relevant members of the Bank on the utilisation of market limits, analysis of VaR and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses VaR and basis sensitivity analysis to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

39. RISK MANAGEMENT (CONTD.)

39.1 Introduction (Contd.)

Excessive Risk Concentration (Contd.)

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, BoM sets the standards of a limitation as follows:

(i) The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20% of the capital of the Bank.

(ii) The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed 5% of the capital for one related person to the bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the capital of the Bank.

39.2 Credit risk

The Bank is exposed to credit risk which is the risk that the Bank's customers, clients or counterparties will be unable or unwilling to pay interest, repay capital, or otherwise fulfill their contractual obligations under loan agreements, other credit facilities, or in respect of other financial instruments.

The Bank's RMC, through the Credit Management Division ("CMD") promotes diversification of the loan portfolio of the Bank's lending activities. The CMD structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Credit limit to any single borrower and portfolio limits by loan products are approved by the Board of Directors and reviewed periodically by the CMD.

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Credit-related commitments risks (Contd.)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Notes	Gross maximum exposure 2014 MNT'000	Gross maximum exposure 2013 MNT'000
Cash and balances with BoM (excluding cash on hand)	13	145,990,603	202,049,732
Due from banks	14	138,422,940	121,851,611
Reverse repurchase agreements	15	152,799,124	29,991,255
Derivative financial instruments	16	1,469,087	636,835
Financial investments – available-for-sale	17	7,751,391	15,500,694
Financial investments – held-to-maturity	17	211,594,397	329,582,816
Loans and advances to customers	18	1,361,818,904	1,048,010,209
Other assets	19	1,162,016	821,338
Total		**2,021,008,462**	**1,748,444,490**
Contingent liabilities	36	50,330,257	29,463,898
Commitments	36	25,752,212	33,229,645
Total		**76,082,469**	**62,693,543**
Total credit risk exposure		**2,097,090,931**	**1,811,138,033**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Risk concentrations by industry

The table below show the analysis per industry sector and economic purpose of the Bank's loans and advances to customers (Note 18) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	2014 Gross maximum exposure		2013 Gross maximum exposure	
	MNT'000	%	MNT'000	%
Trading	312,112,759	22.92	239,755,254	22.88
Mortgage	220,233,804	16.17	160,660,934	15.33
Production	215,311,310	15.81	157,643,667	15.04
Services	174,132,449	12.79	133,135,580	12.70
Consumption	134,270,861	9.86	117,358,126	11.20
Construction	99,753,180	7.33	74,682,028	7.13
Other	69,651,066	5.11	40,807,730	3.89
Deposit backed	82,380,202	6.05	40,745,118	3.89
Mining	17,134,711	1.26	31,725,348	3.03
Loans to staff	12,989,060	0.95	25,869,567	2.47
Agricultural	21,831,129	1.60	24,276,869	2.32
Loans to key management	2,018,373	0.15	1,349,988	0.12
Total	**1,361,818,904**	**100**	**1,048,010,209**	**100**

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank follows the collateral guidelines set by the Credit Management Committee in determining the type and value of collateral to be obtained.

The main types of collateral obtained are as follows:

(i) For small business, consumer, agricultural, SME and employee loans - cash, guarantees, securities and real estate properties, chattels, inventory, etc.
(ii) For mortgage loans - mortgages on residential properties and vehicles.
(iii) For wholesale loans - cash, equities and real estate properties.
(iv) For deposit backed loans - cash deposit.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Credit quality per class of financial assets

The credit quality of loans and advances to customers is managed by the Bank using internal credit rating.

The following table shows the description of Credit Risk Grading System of the Bank:

Credit Rating	Grade Description
A	Excellent
B	Good
C	Satisfactory
D	Substandard

The Bank's 4-Grade Risk Rating is used in order to categorize exposures according to the risk profile. The 4-Grade Risk Rating is modeled using parametric approaches (logit model) that quantify the probability of default in determining the risk grade. Both qualitative and quantitative historical experience provides background for the bank’s credit risk management department for the assumptions used. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of four grades which are applied in an uniform matter.

It is the Bank’s policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all lines of loan products. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk. All risk grades are tailored to the various loans exposures and are derived in accordance with the Bank’s grading policy across all risk groupings reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

The Bank does not rate the unquoted financial investments.

The table below shows that credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank’s internal credit rating system. The amounts presented are gross of impairment allowances.

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Credit quality per class of financial assets (Contd.)

At 31 December 2014	Note	Neither past due nor impaired					Past due or individually impaired	Total
		Excellent MNT'000	Good MNT'000	Satisfactory MNT'000	Substandard MNT'000	Not rated MNT'000	MNT'000	MNT'000
Cash and balances with BoM	13	187,780,433	-	-	-	-	-	187,780,433
Due from banks	14	110,918,938	2,029,332	1,927,720	23,546,950	-	-	138,422,940
Reverse repurchase agreements	15	152,799,124	-	-	-	-	-	152,799,124
Derivative financial instruments	16	1,469,087	-	-	-	-	-	1,469,087
Financial investment								
-available-for-sale	17	-	-	-	-	7,751,391	-	7,751,391
-held to maturity	17	211,594,397	-	-	-	-	-	211,594,397
Loans and advances to customers								
SME loan	18	16,990,405	113,616,653	401,467,249	33,896,868	75,096	107,978,986	674,025,257
Mortgage loan	18	61,982,978	17,856,882	137,350,651	7,028,207	157,082	4,436,314	228,812,114
Micro business loan	18	18,310,589	13,285,082	175,080,989	4,509,840	-	8,591,402	219,777,902
Consumer loan	18	18,679,467	35,183,410	47,063,672	2,740,412	-	5,834,149	109,501,110
Finance leases	18	12,470,913	6,627,880	9,907,590	255,338	-	2,123,771	31,385,492
Other	18	95,139,451	508,913	1,237,649	-	-	1,431,016	98,317,029
		223,573,803	187,078,820	772,107,800	48,430,665	232,178	130,395,638	1,361,818,904
Other assets	19	1,162,016	-	-	-	-	139,084	1,301,100
Total		**889,297,798**	**189,108,152**	**774,035,520**	**71,977,615**	**7,983,569**	**130,534,722**	**2,062,937,376**

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Credit quality per class of financial assets (Contd.)

At 31 December 2013	Note	Neither past due nor impaired Excellent MNT'000	Good MNT'000	Satisfactory MNT'000	Substandard MNT'000	Not rated MNT'000	Past due or individually impaired MNT'000	Total MNT'000
Cash and balances with BoM	13	238,614,870	-	-	-	-	-	238,614,870
Due from banks	14	35,697,104	1,754,191	-	84,400,316	-	-	121,851,611
Reverse repurchase agreements	15	29,991,255	-	-	-	-	-	29,991,255
Derivative financial instruments	16	636,835	-	-	-	-	-	636,835
Financial investment								
-available-for-sale	17	-	-	-	-	15,500,694	-	15,500,694
-held to maturity	17	329,582,816	-	-	-	-	-	329,582,816
Loans and advances to customers								
SME loan	18	107,827,265	105,308,640	289,050,367	20,715,050	525,026	23,682,527	547,108,875
Mortgage loan	18	51,720,506	19,216,992	102,324,465	6,689,342	260,792	931,771	181,143,868
Micro business loan	18	15,724,929	6,403,293	126,253,493	2,462,821	-	1,608,011	152,452,547
Consumer loan	18	20,815,519	35,245,535	41,994,269	2,302,918	-	1,675,412	102,033,653
Finance leases	18	10,474,830	5,612,390	6,618,053	275,857	-	304,466	23,285,596
Other	18	40,793,156	19,464	1,057,944	22,096	-	93,010	41,985,670
		247,356,205	171,806,314	567,298,591	32,468,084	785,818	28,295,197	1,048,010,209
Other assets	19	814,841	-	-	-	-	49,484	864,325
Total		**882,693,926**	**173,560,505**	**567,298,591**	**116,868,400**	**16,286,512**	**28,344,681**	**1,785,052,614**

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Past due loans and advances to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

	Less than 30 days MNT'000	31 to 60 days MNT'000	61 to 90 days MNT'000	More than 90 days MNT'000	Total MNT'000
As at 31 December 2014					
Loan and advances to customers					
SME loan	61,825,441	1,177,273	3,794,413	17,533,012	84,330,139
Mortgage loan	1,220,744	667,862	344,137	2,203,571	4,436,314
Micro business loan	2,582,592	1,387,427	996,050	3,625,333	8,591,402
Consumer loan	1,754,091	1,039,217	560,820	2,480,021	5,834,149
Finance leases	844,293	319,362	207,582	752,534	2,123,771
Other	982,413	75,916	31,044	341,643	1,431,016
	69,209,574	**4,667,057**	**5,934,046**	**26,936,114**	**106,746,791**

	Less than 30 days MNT'000	31 to 60 days MNT'000	61 to 90 days MNT'000	More than 91 days MNT'000	Total MNT'000
As at 31 December 2013					
Loan and advances to customers					
SME loan	1,795,138	2,670,233	973,836	1,152,543	6,591,750
Mortgage loan	311,179	17,449	8,709	594,434	931,771
Micro business loan	495,747	161,871	185,594	764,799	1,608,011
Consumer loan	320,764	404,213	106,893	843,542	1,675,412
Finance leases	70,488	18,365	6,568	190,695	286,116
Other	5,672	40,263	4,768	42,307	93,010
	2,998,988	**3,312,394**	**1,286,368**	**3,588,320**	**11,186,070**

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Aging analysis of past due but not impaired loans by class of financial assets (Contd.)

Of the total aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Bank held as at 31 December 2014 was MNT 154,997 million (2013: MNT 21,552 million). Please refer Note 18 for more detailed information with respect to allowance for impairment losses on loans and advances to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2014 MNT'000	2013 MNT'000
Loans and advances to customers:		
SME loan	2,241,423	106,532
Mortgage loan	3,325	-
Micro business loan	52,174	72,479
Consumer loan	41,949	35,974
Finance leases	-	-
Other	-	15,435
	2,338,871	**230,420**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of the other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

39. RISK MANAGEMENT (CONTD.)

39.2 Credit risk (Contd.)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated quarterly with each portfolio receiving a separate review by the management.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

39.3 Liquidity risk

The Bank is exposed to liquidity risks that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank sets limits on the minimum funding composition that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to 12% (2013: 12%) of customer deposits.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank’s financial based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

39. RISK MANAGEMENT (CONTD.)

39.3 Liquidity risk (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

Financial liabilities	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2014							
Due to banks	147,978	17,610,477	365,924	17,657,586	-	-	35,781,965
Repurchase agreement	181,567,843	-	-	-	-	-	181,567,843
Due to customers	293,334,544	89,962,275	143,598,262	120,300,871	92,452,985	193,028,169	932,677,106
Derivative financial instruments	389,399	1,289,541	45,311	-	703,488	-	2,427,739
Borrowed funds	5,432,679	12,703,868	176,840,061	158,464,747	510,774,994	27,767,372	891,983,721
Subordinated loans	622,178	1,244,355	1,866,533	3,733,065	49,442,392	81,438,289	138,346,812
Other liabilities	6,479,471	5,488,538	33,378	1,016,935	327,232	6,583	13,352,137
Total	**487,974,092**	**128,299,054**	**322,749,469**	**301,173,204**	**653,701,091**	**302,240,413**	**2,196,137,323**

39. RISK MANAGEMENT (CONTD.)

39.3 Liquidity risk (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

Financial liabilities	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2013							
Due to banks	42,591,420	11,529,916	71,689,665	5,634,272	16,170,895	-	147,616,168
Repurchase agreement	163,376,128	-	-	-	-	-	163,376,128
Due to customers	281,748,808	81,126,184	91,892,028	76,880,988	73,311,241	134,039,344	738,998,593
Derivative financial instruments	507,866	46,626	72,312	-	-	-	626,804
Borrowed funds	7,702,394	91,029,693	98,155,226	152,556,959	340,307,803	39,198,750	728,950,825
Subordinated loans	390,745	781,489	1,172,234	2,344,467	57,548,551	16,755,173	78,992,659
Other liabilities	2,477,788	96,999	1,570	6,885,078	336,802	3,209,809	13,008,046
Total	**498,795,149**	**184,610,907**	**262,983,035**	**244,301,764**	**487,675,292**	**193,203,076**	**1,871,569,223**

39. RISK MANAGEMENT (CONTD.)

39.3 Liquidity risk (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 Months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2014							
Contingent liabilities (Note 36)	21,703,548	7,929,009	8,042,436	7,604,166	1,279,898	3,771,200	50,330,257
Commitments (Note 36)	543,339	847,715	7,016,117	5,288,939	12,056,102	-	25,752,212
Total	**22,246,887**	**8,776,724**	**15,058,553**	**12,893,105**	**13,336,000**	**3,771,200**	**76,082,469**
At 31 December 2013							
Contingent liabilities (Note 36)	2,286,623	10,807,157	3,831,072	11,211,766	1,327,280	-	29,463,898
Commitments (Note 36)	224,422	1,235,885	5,161,011	1,566,399	25,041,928	-	33,229,645
Total	**2,511,045**	**12,043,042**	**8,992,083**	**12,778,165**	**26,369,208**	**-**	**62,693,543**

39. RISK MANAGEMENT (CONTD.)

39.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Bank manages and monitors this risk element using VaR and sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. The management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2014 and 31 December 2013.

Currency	**Change in basis points**	**Sensitivity of net interest income MNT'000**
At 31 December 2014		
USD	+120	(2,372,242)
MNT	+120	742,393
USD	-120	2,372,242
MNT	-120	(742,393)
At 31 December 2013		
USD	+120	(1,050,786)
MNT	+120	(260,176)
USD	-120	1,050,786
MNT	-120	260,176

39. RISK MANAGEMENT (CONTD.)

39.4 Market risk (Contd.)

Currency risk

Currency risk is the possibility of financial loss to the Bank arising from adverse movements in foreign exchange rates. The Bank's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis. Apart from using foreign exchange exposure mismatch, the Bank applies Value-at-Risk ("VaR") simulation model to manage and measure foreign exchange risk since March 2007. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over specified time horizon.

Objectives and limitations of the VaR Methodology

The VaR model is designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The Bank uses Variance/Covariance model to assess possible changes in foreign currency portfolio based on historical data from the past one day. The VaR methodology employed by the Bank uses a one-day period, using 99% confidence level, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day, and are determined by observing market data movements over a 250-day period. The use of a 99% confidence level means that, within one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

VaR is an integral part of the Bank's market risk management since March 2007, VaR limits and exposures are reviewed regularly against the limits set by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR model are the following:

	Variance/ Covariance MNT’000		**Variance/ Covariance MNT’000**
2014 - 31 December	142,365	2013 - 31 December	182,098
2014 - Average Daily	81,007	2013 - Average Daily	163,584
2014 - Highest	559,746	2013 - Highest	736,814
2014 - Lowest	12,781	2013 - Lowest	13,728

39. RISK MANAGEMENT (CONTD.)

39.4 Market risk (Contd.)

Currency risk (Contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as 31 December, 2014. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

Concentrations of financial assets and financial liabilities	MNT MNT'000	USD MNT'000	Euro MNT'000	Other MNT'000	Total MNT'000
As at 31 December 2014					
Assets					
Cash and balances with BoM	95,845,673	70,164,987	1,062,207	20,707,566	187,780,433
Due from banks	35,732	126,105,367	7,097,504	5,184,337	138,422,940
Reverse repurchase agreements	152,799,124	-	-	-	152,799,124
Derivative financial instruments	1,469,087	-	-	-	1,469,087
Financial investment					
-held-for-trading	-	-	-	-	-
-available-for-sale	7,374,271	377,120	-	-	7,751,391
-held-to-maturity	211,594,397	-	-	-	211,594,397
Loans and advances to customers	1,058,742,983	253,013,431	52,399	1,888,843	1,313,697,656
Other assets	665,786	480,273	12,200	3,757	1,162,016
	1,528,527,053	450,141,178	8,224,310	27,784,503	2,014,677,044
Liabilities					
Due to banks	25,305	16,925,859	-	17,366,527	34,317,691
Repurchase agreement	179,763,676	-	-	-	179,763,676
Due to customers	635,141,674	144,110,631	6,984,021	11,512,687	797,749,013
Derivative financial instruments	2,427,739	-	-	-	2,427,739
Borrowed funds	286,055,393	516,175,466	1,329,599	-	803,560,458
Subordinated loans	-	97,925,342	-	-	97,925,342
Other liabilities	8,202,938	4,148,909	11,907	988,383	13,352,137
	1,111,616,725	779,286,207	8,325,527	29,867,597	1,929,096,056
Net position	**416,910,328**	**(329,145,029)**	**(101,217)**	**(2,083,094)**	**85,580,988**

39. RISK MANAGEMENT (CONTD.)

39.4 Market risk (Contd.)

Currency risk (Contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as 31 December, 2013. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies (Contd.).

Concentrations of financial assets and financial liabilities	MNT MNT'000	USD MNT'000	Euro MNT'000	Other MNT'000	Total MNT'000
As at 31 December 2013					
Assets					
Cash and balances with BoM	205,488,160	27,629,100	1,678,407	3,819,203	238,614,870
Due from banks	35,346	119,217,395	787,942	1,810,928	121,851,611
Reverse repurchase agreements	29,991,255	-	-	-	29,991,255
Derivative financial instruments	636,835	-	-	-	636,835
Financial investment					
-held-for-trading	-	-	-	-	-
-available-for-sale	15,169,874	330,820	-	-	15,500,694
-held-to-maturity	329,582,816	-	-	-	329,582,816
Loans and advances to customers	644,842,284	382,214,988	2,483,473	549	1,029,541,294
Other assets	381,266	433,575	-	-	814,841
	1,226,127,836	529,825,878	4,949,822	5,630,680	1,766,534,216
Liabilities					
Due to banks	122,041,803	19,665,175	-	-	141,706,978
Repurchase agreement	162,428,300	-	-	-	162,428,300
Due to customers	555,345,295	80,043,835	3,731,877	5,362,176	644,483,183
Derivative financial instruments	626,804	-	-	-	626,804
Borrowed funds	286,527,991	376,668,159	1,172,054	-	664,368,204
Subordinated loans	-	58,637,886	-	-	58,637,886
Other liabilities	10,841,503	484,124	48,771	1,633,648	13,008,046
	1,137,811,696	535,499,179	4,952,702	6,995,824	1,685,259,401
Net position	**88,316,140**	**(5,673,301)**	**(2,880)**	**(1,365,144)**	**81,274,815**

39. RISK MANAGEMENT (CONTD.)

39.4 Market risk (Contd.)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income.

If 20% of repayable financial instruments were prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be reduced by MNT 41,495 million (2013: MNT 31,469 million).

Operational risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Bank cannot expect to eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back office functions, controlled access to systems, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Bank seeks to manage operational risk.

40. CAPITAL ADEQUACY

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by BoM.

During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to the shareholder, return capital to the shareholder or issue new equity or equity related securities.

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2013: 9%) and risk weighted capital ratio of at least 14% (2013: 14%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31st December were as follows:

	2014	**2013**
Core capital ratio	9.81%	11.18%
Risk weighted capital ratio	16.99%	16.54%

	2014 MNT'000	**2013 MNT'000**
Tier I capital		
Ordinary shares	20,353,656	20,353,656
Share premium	34,989,097	34,989,097
Other reserves	10,531,368	10,531,368
Retained profit	67,966,631	56,330,923
Total Tier I Capital	133,840,752	122,205,044
Tier II capital		
Subordinated loans	97,925,342	58,637,886
Total capital /capital base	**231,766,094**	**180,842,930**

40. CAPITAL ADEQUACY (CONTD.)

Regulatory capital (Contd.)

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

	2014		**2013**	
%	**Risk Assets MNT'000**	**Weighted MNT'000**	**Risk Assets MNT'000**	**Weighted MNT'000**
0	569,426,359	-	600,068,943	-
20	58,289,591	11,657,918	41,085,010	8,217,002
50	195,860,088	97,930,044	168,975,171	84,487,585
70	341,551,765	239,086,235	270,835,197	189,584,638
100	976,754,003	976,754,003	781,893,170	781,893,170
150	4,443,211	6,664,816	2,549,261	3,823,891
Adjustments:				
Operational risk ratio		23,635,505		15,946,833
Foreign exchange risk ratio		8,038,924		9,251,000
Total	**2,146,325,017**	**1,363,767,445**	**1,865,406,752**	**1,093,204,119**

41. MONGOLIAN TRANSLATION

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

42. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events requiring disclosure in the financial statements.