GOLOMT BANK

Committed to and Investing in Excellence

ANNUAL REPORT 2013

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GREETINGS FROM THE CHAIRWOMAN

GOLOMT BANK HAS DELIVERED REMARKABLE RESULTS. IT IS IN OUR STRONG BELIEF THAT SINCE WE HAVE SUCCESSFULLY OVERCOME THE CHALLENGES WE FACED IN THE PAST YEAR, IT IS INDISPUTABLE THAT THE BANK HAS POTENTIAL TO SURMOUNT GREATER CHALLENGES OF GROWTH AND SUMMITS OF SUCCESS.

To our Shareholders, Esteemed Customers and Trusted Correspondent Banks, Business Partners and Valued Employees

It is my privilege and pleasure to report to you for the first time in my new capacity as Chairman of the Board of Governors of the Bank.

For the previous few years, Mongolia experienced intensive pace of growth peaking in 2011 at 17.5 percent GDP growth rate, mainly due to increased demand from economic powerhouse China for our commodities such as coking coal, copper, iron and other key minerals for industrial use and amplified foreign direct investment into Mongolia especially into the mining sector. Although Mongolia had been quite difficult environment for both domestic and international investors with its cumbersome red tapes, uncertain and redundant regulations, discretionary official involvement and frequent changes in tax and legal rules, there was common expectation that policies and legal settings will improve. Many investors injected their funds into long-term projects assuming that economic boom would continue along with the improvements in the investment environment.

This expectation was high especially when the Democratic Party came to power leading the new Coalition government after the 2012 parliamentary elections. The Democratic Party, which consists of the leaders of democratic movements of the early 1990s that abolished communist regime and centrally planned economy that introduced democratic government and market principles, is usually viewed as the party for more supportive policies towards foreign investment.

However, in the first one and half year since the election, the new Coalition government could not deliver these expected results for investors, but on the contrary, the dispute with Oyu Tolgoi investment agreement dragged on for many months and the Government was not able to approve the new investment law until late 2013. Consequently, 54 percent drop in FDI had substantial negative impact on the state budget and corporate income. Coupled with this, Chinese Government started to implement economic reforms to "cool down" its industrial production in order to adjust to the lowered global demand in the short term, and to shift its export oriented growth into more consumer-oriented model in the long run. This has resulted in reduced Chinese demand for commodities such as coal, iron and copper which in turn saw the 41 percent plunge in export income for Mongolia.

Nevertheless, the two significant measures of "Price Stability Program" and on-lending programs for targeted five sectors implemented by the Government of Mongolia and Bank of Mongolia has maintained the economic growth at 11.7 percent, level that is still lower than the projected estimation. The Coalition Government has targeted to reach higher growth rate by exporting more commodities at higher price, by keeping the inflation rate within single digit level, and relatively stable exchange rate, but to little avail.

Internally, preceding year was a real time "stress test" for the Golomt bank with misunderstanding between its shareholders. Nevertheless, our bank had successfully resolved this challenge in a remarkably short period, thanks to firm confidence of our customers, longstanding cooperation with our business partners, strong leadership, highly skilled management team, dedicated staff, proper business conducts and corporate governance, in which the bank grew out immensely strengthened in governance and operations.

Lessons were learned from this challenge and the bank had started series of measures on following areas:

- Corporate governance policies;
- Internal audit improvement;
- Risk management system;
- Building board competence and skills;
- More independent members into the board;
- Solid and highly capable management team;

- Maintain our leading position in information security and control;
- Operational sophistication at all levels.

These objectives further entail the importance to define the scope of responsibilities between shareholders and the Board, to determine detailed work and process flows, implement structural reforms, and to introduce incentive principles based on performance forming solid human resource pool who can face and resolve the challenges of the future.

Despite the deteriorated market environment and internal governance challenge, Golomt Bank has delivered remarkable results. It is in our strong belief that since we have successfully settled this governance challenge, it is indisputable that the bank has potential to surmount greater challenges of growth and summits of success.

In conclusion, upon behalf of all Members of the Board of Governors, I express my appreciation to the four components of our 19 years of continued success and growth: first, our esteemed clients and valued correspondent banks for entrusting us with their business and financial resources; secondly, the citizens, companies and whole community throughout Mongolia for the confidence which they repose in the Bank; thirdly, our loyal, dedicated and diligent management and staff at all levels who contribute so much to our mutual success; and finally, to our Shareholders.

As has been the case throughout our 19 year history all of us in Golomt bank stand ready to support our Government, institutions, companies, individuals, foreign investors and correspondent banks with the provision of the widest range of financial services to contribute to and benefit from our expanding national output and improving welfare as we continue to serve our nation and our clients to the very best of our abilities.

CH.MUNKHTSETSEG
Chairwoman

GREETINGS FROM THE CHIEF EXECUTIVE OFFICER

Golomt Bank sustained the stable growth it was maintaining for the past 15 years, with total assets increased by 48 percent, total capital by 49 percent and net profits by 117 percent as of the end of 2013. The Bank has firmly strengthened its financial position with excellent financial performance ratios, including liquidity ratio of 43.3 percent, Return on Assets of 1.9 percent and 26.8 percent of Return on Equity, which indicate the financial strength of the Bank.

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

It is my pleasure to report to you on Golomt Bank's 2013 performance and 19th year of its continued success.

The world economic growth has slowed down in 2013 with 3 percent of growth and the economies of not only developed nations but also developing countries endured a slower growth. The U.S Federal Reserves implemented USD 85 billion bond-purchasing program since September 2012, however, its May 2013 notification on reducing the amount of bonds to be purchased led to the fall of prices for major commodities in the international market. Moreover, foreign direct investment declined by 6 percent worldwide.

According to IMF forecast as of January 2014, the rapid growth of PRC is expected to be slow. Deceleration of economic growth in China, which is the main export partner of Mongolia, will result in the decline of China's imports as well as in the decreased volume of Mongolia's exports.

Due to slow growth of the world economy in 2013 and decline of foreign direct investments worldwide, Mongolia's foreign trade turnover decreased by 4.5 percent in 2013, of which, export income by 2.6 percent and import by 5.7 percent respectively. In addition, with the end of first investment stage of Oyu-Tolgoi, uncertainties surrounding its 2nd stage of investments and declining foreign direct investments worldwide, the volume of foreign investment in Mongolia fell by 54 percent in 2013.

Although the volume of foreign trade and foreign investments decreased, Mongolia raised USD 1.5 billion Chinggis Bond at the international market at the end of

2012 that supported the increase of domestic investments and sustained the high growth of the economy with real GDP at 11.7 percent in 2013.

The investment of MNT 1.7 trillion from Chinggis Bond proceeds and the Development Bank of Mongolia funds and MNT 1.2 trillion from the consolidated state budget (MNT 790 billion from the state budget) in 2013 was 1.5 times higher than investments in 2012 from the consolidated state budget and the Development Bank of Mongolia funds.

In addition, to support the economic growth and to stabilize volatility of prices of some major commodities and products, the Bank of Mongolia disbursed about MNT 3 trillion through commercial banks by implementing the "Medium Term Program to Stabilize Prices for Key Commodities and Products" and the "Program to Create Stable Housing Mortgage Financing Structure".

Golomt Bank was actively involved in these programs as well as in the following the Government Programs to stabilize prices:

- "Subsidized rate loan designated to liquidate seasonal supply limitation for construction materials (cement and reinforcing steel), required to be imported"
- "Staple Food Price Stabilization Subprogram"
- "Subsidized rate loan subprogram to stabilize flour prices"
- "Subsidized loan subprogram to secure coal reserves, ensure preparation of fuel and energy sectors for winter and stabilize energy prices and tariffs"
- Loan programs to finance housing to support construction sector and housing supply.

The implementation of these subprograms in 2013 resulted in relatively stable prices for key consumer products including fuel, meat and flour, and Golomt Bank is pleased that it made its contribution in these programs. As a result of the implementation of price stabilization programs, the inflation rate, measured by consumer price index, by the end of 2013 was 12.5 percent nationwide and 12.3 percent in Ulaanbaatar city.

Furthermore, in cooperation with the Ministry of Industry and Agriculture and with Chingis Bond proceeds, Golomt Bank is financing technical renovation projects in 5 major sectors of the economy, which will benefit the country in the future, such as Wool, Cashmere, Greenhouses, Dairy farming and Garment sectors. With this financing, the industrialization of Mongolia will intensify opening new doors for the country to become an exporter from an importer.

Within the program to "Create sustainable mortgage financing structure", Golomt Bank's housing loan portfolio increased by 105 percent from MNT 248 billion in 2012

reaching MNT 510 billion in 2013, and the number of mortgage borrowers increased by 58 percent reaching 12,029 in the reporting period. In particular, Golomt Bank has been actively engaged in the "8±1 percent Housing Mortgage Program" implemented by the Government and the Bank of Mongolia by refinancing 4,828 households with MNT 131 billion and disbursing newly MNT 227 billion mortgage loans to 4,067 households, thus, the bank alone accounted for 30 percent share in the Mongolian mortgage market.

Although in the last year the economy of Mongolia did not record the expected high growth with uncertainty prevailing, the banking and financial system of Mongolia remained stable thanks to the monetary policy carried out by the state, specific measures, programs and projects implemented by the Government and the Bank of Mongolia.

In 2013, Golomt Bank was able to sustain its stable growth, which it was maintaining for the past 15 years despite this challenging environment and its financial position has strengthened with total assets increased by 48 percent reaching MNT 3.75 trillion and total capital increased by over 49 percent reaching MNT 329.7 billion while net profits increased by 117 percent reaching MNT 56.9 billion.

Moreover, the Bank's financial ratios indicate excellent results with its liquidity ratio reaching 43.3 percent, return on assets 1.9 percent and return on equity 26.8 percent, which show the financial strength of the Bank.

Golomt Bank continues to implement its strategy to expand its branch network in high growth economic regions throughout Mongolia. Within this objective, it opened 5 new branches during this reporting period and has now in total 97 branches expanding further the size of its operations.

Golomt Bank introduced the first in the domestic market "Self-service banking" in 2012. We have expanded the scope of this service in the last year to increase the number of self-service banking units to 11 and placed 15 new ATMs to make the bank closer to its customers. As the leading bank and innovator in the banking sector, Golomt Bank has been paying a particular attention to development of its internet banking services and online banking channels to enhance the speed and security of its services. In particular, it introduced 2.0 version of SMART BANKING service, the first financial application in Mongolia for smart phones in 2013 and introduced in cooperation with the General Tax Authority of Mongolia, a new service for individuals and entities to pay their taxes online, e-Taxes, enabling the state services to become closer to its customers. We also introduced "3D SECURITY" for the credit cards in order to improve safety and security of online purchasing, which is one of many accomplishments that the Bank has had this year.

In July of 2014, Golomt Bank is working to introduce the first Core Banking System in Mongolia in cooperation with Infosys, the leading global IT Company as well as the first American Express cards in Mongolia to its customers.

In recognition of the innovations in internet banking products and services, advanced technological solutions, increase of bank customers using internet and mobile solutions, Golomt bank was awarded the "Best Internet Bank – 2013" in Mongolia by the Global Finance, a well-recognized industry journal, which selects the best banks in the international financial markets. Within its social responsibility program, Golomt Bank, in addition to supporting environmentally-friendly business project, contributes to the development of our future generation by organizing 12th Golomt Bank's Science and Research conference for students and our Scholarship Program for students for 11th consecutive year. Moreover, in 2013 as a recognition of the banks continuous support of culture and sports, it was awarded one of the most sought after awards within the business community in Mongolia, the "EXCELLENCE IN CORPORATE SOCIAL RESPONSIBILITY", award by the Chamber of Commerce and Industry of Mongolia.

The core value of Golomt Bank is its highly professional, creative and dedicated employees. Therefore, the Bank's human resources policy in 2013 focused on improving skills of employees with increasing capacity to work internationally, and creating an environment to promote long-term stable employment.

Golomt Bank launched HR recruitment campaign in 2013 under the slogan "Success starts with the Right Job" among newly graduates of universities; as a result, about 100 newly graduates joined our family and the number of Bank employees reached 1,728. In addition, since 2011 the Bank is implementing the Employee Stock Ownership Program (ESOP) which is not only to encourage stability and long-term employment but to also ensure a social guarantee and to provide the rights to our employees to take part in corporate governance of the Bank. An employee taking part in a Bank's decision making process creates conditions for the corporate governance to be monitored and to be healthier.

Golomt Bank has maintained its leading position in the Mongolian banking sector reporting strong financial and sustainable results in 2013 due to unyielding trust of our banks clients, cooperation, hard work and dedication of our employees and inspires us for further progress. We will continue to pursue our mission to provide the best banking and financial services for the success of each customer with honor of making our contribution to the development and growth of Mongolia.

G.GANBOLD
Chief Executive Officer

ECONOMIC REVIEW

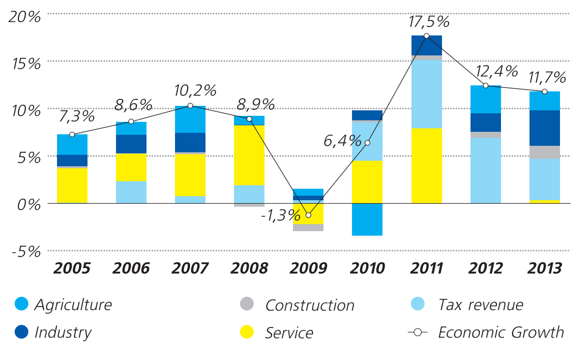
"DESPITE THE ECONOMIC DOWNTURNS IN MONGOLIA, MONGOLIAN ECONOMY SUCCESSFULLY KEPT ITS DOUBLE DIGIT GROWTH 11.7 PERCENT IN THE REPORTING YEAR. LED BY SERVICE SECTORS GROWTH OF 37 PERCENT, INDUSTRIAL, AGRICULTURAL AND CONSTRUCTION SECTORS WERE IN THE FRONT LINE OF THIS GROWTH"

ECONOMIC GROWTH

Mongolian economy maintained double digit growth in 2013 with 11.7 percent compared to 12.4 percent of 2012. This growth was buoyed by a relatively mild winter boosting agriculture and highly expansionary fiscal and monetary policies. If we take the percentage of contributions made by different sectors to the overall growth, service sector's contribution constituted 37 percent, industrial sector 32 percent, agricultural sector 17 percent and construction sector 12 percent, respectively.

Nominal GDP increased by 25.2 percent, reaching MNT 17.6 trillion in 2013, up from MNT 14 trillion in 2012.

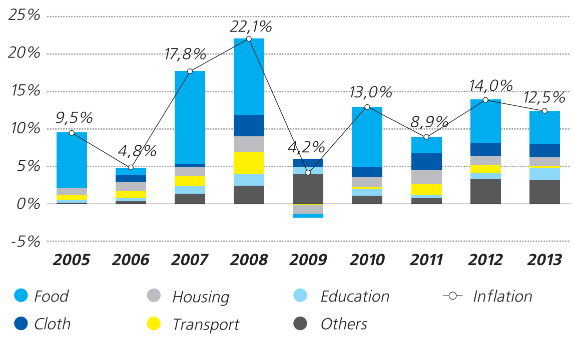
Real GDP Growth (%)



INFLATION

CPI decreased slightly, reaching 12.5 percent in 2013 compared to 14 percent in 2012. Inflation was mainly driven by prices of food products, which increased by 13.3 percent. If we look at the causes for inflation by products, food production constituted 35.4 percent, clothing and textile products 14.2 percent, educational service 14.1 percent, and housing and energy constituted 9.5 percent.

Inflation Contribution



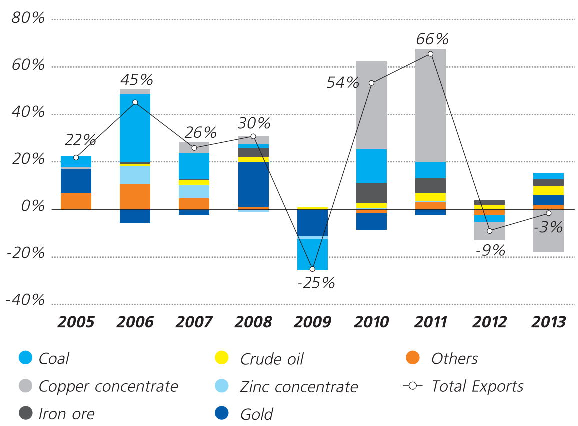
FOREIGN TRADE

Foreign trade turnover reached USD 10.6 billion in 2013, which is a 4.5 percent decrease from the previous year. Total export fell by 2.6 percent reaching USD 4.3 billion, while import decreased by 5.7 percent reaching USD 6.4 billion. As a result, trade deficit reached USD 2.1 billion, which was equivalent to 19.9 percent of GDP.

Mineral products accounted for 81.8 percent, precious metals 7.3 percent, and textile products 6.6 percent of the total export. Export of copper and iron ore increased by 13.1 percent and 22.9 percent, respectively, while coal export declined by 41 percent.

Mineral products are mainly exported to China. China's share in the total export fell to 86.8 percent from 92.6 percent in 2012, while export to UK increased from 0.3 percent to 4.7 percent. As for the total import, China's import accounted for 28.7 percent, followed by 24.6 percent of Russia, 8.1 percent of the U.S, and 8 percent of South Korea, respectively. Import of diesel, the main import product, increased by 8 percent, while imports of gasoline and heavy machinery decreased by 2.3 percent and 19.8 percent, respectively.

Total Export Growth

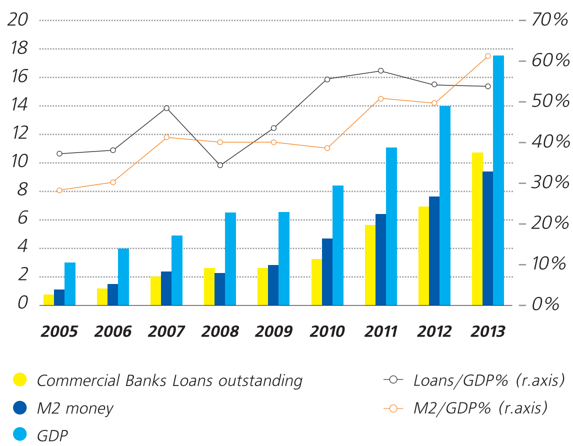


FINANCIAL MARKET

Money supply (M2) increased by 24.2 percent, reaching MNT 9.5 trillion. The ratio of M2, the primary indicator of financial market development, to GDP declined to 53.9 percent in 2013, compared to 54.4 percent in 2012 and 57.8 percent in 2011.

Outstanding loans of commercial Banks increased by MNT 3.8 trillion, reaching MNT 10.8 trillion in 2013, financed by the funds of "Price Stabilization Program" and "Chinggis" bond. The ratio of total loan portfolio of banks to GDP reached 61.4 percent in 2013, rising from 49.9 percent of 2012 due to expansionary policies.

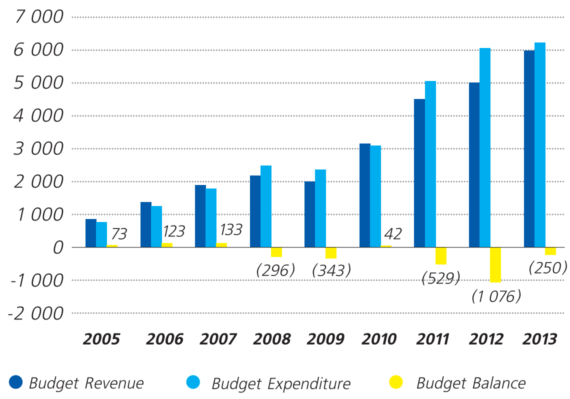
Financial Market Development Indicator



GOVERNMENT BUDGET

Total fiscal revenue increased by 20.1 percent from the previous year, reaching MNT 5.9 trillion in 2013. Income tax revenue (which accounted for 18.7 percent of the total revenue) increased by 27.2 percent, VAT revenue (which accounted for 24.2 percent of the total revenue) by 10.5 percent, and revenue from social insurance contribution (which accounted for 14.5 percent of the total revenue) rose by 32.4 percent, respectively. Moreover, total expenditure reached MNT 6.2 trillion, a 3.1 percent rise from 2012. Wages and salaries increased by 16.9 percent in 2013. Government expenditure on goods and services reached MNT 994 billion, up from 2012 by 16.2 percent. Total transfers and subsidies decreased by 14.8 percent, reaching MNT 1.9 trillion (they account for 32 percent of the total expenditure), thus, the budget deficit amounted to MNT 250.4 billion in 2013.

Government Budget



ORGANIZATONAL DEVELOPMENT

The Bank is committed to implement a corporate governance policy aimed at ensuring responsible management and structure of performance, monitoring and reporting system while enforcing the principles of transparency, social responsibility and compliance with legal and ethical conducts.

VISION AND MISSION

Vision

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

Mission

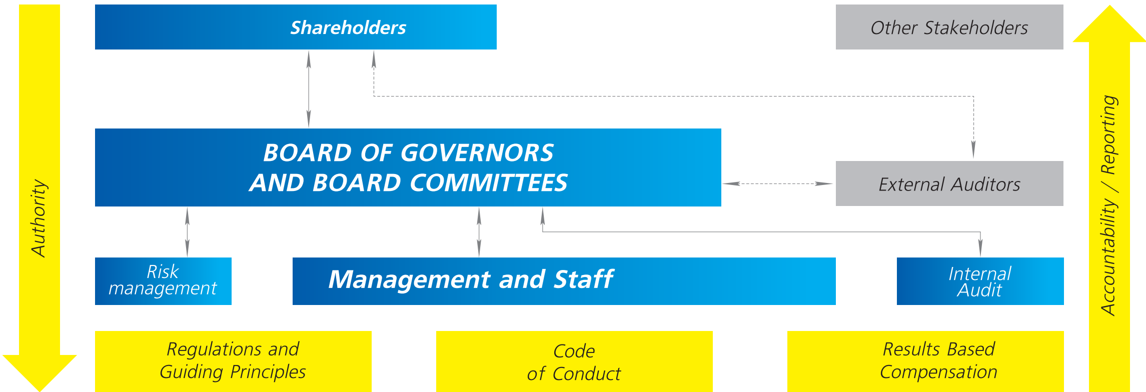
To be the leading and professional bank in Mongolia with high operating efficiency and advanced social responsibility, committed to providing the full range of banking and financial products to all our valued customers with the highest possible levels of service standards.

CORPORATE GOVERNANCE

Golomt Bank's Corporate Governance System

Golomt Bank's Corporate Governance aims to honor legal rights of all stakeholders and create conditions to ensure long term sustainable development and profitability ratios, to the highest extent possible. Therefore, the Bank is committed to implement a corporate governance policy aimed at ensuring responsible management and structure of performance, monitoring and reporting system while enforcing the principles of transparency, social responsibility with full compliance with legal and ethical conducts.

Corporate Governance Structure



Core principles of the Bank's Corporate Governance consist of legislation, generally accepted principles, ethical code and remuneration system based on performance.

Shareholders and other stakeholders of Golomt Bank are positioned at the top of the Corporate Governance structure of the Bank and the main goal of the Corporate Governance is to ensure that the interests of these parties are equally protected and provided. Board of Governors (the "Board") is the main governing authority that directly communicates with all other stakeholders, ensures the equilibrium of their relations, rights and duties, and carries out the main task to determine the Bank's strategy and assign properly the duties of the executive management as well as the risk and internal audit units. The Executive Management, Risk Management, and Internal Audit units independently carry out daily operations of the Bank under the supervision of the Board, evaluate risks and oversee the performance.

Corporate Governance Documents

The Revised Charter of Golomt Bank, approved at the shareholders' meeting held in December 2013, is the basis for set of documents that determines the conduct of Golomt Bank's Corporate Governance. The Governance Code, approved at the Board Meeting held March 28, 2014, is the main document that regulates accurately the Bank's governance structure with an aim to improve the corporate governance of Golomt Bank within the framework of the Charter and achieve the level that ensures international standards set for listed companies.

Other relevant documents such as rules of Board Committees and documents that define structure, organization and duties of the Management and Internal Audit unit comply with the Charter and Governance code, ensure their effective implementation and aim to regulate thoroughly and diversify the Bank's organization and operations.

Some revisions were incorporated into the Charter which was revised in 2013, including adjustments related to preferred stocks, stock ownership regulation within ESOP, Board composition and decision making principles, amendments in the duties outlined for Board, and redefinition of the Bank's competent positions. Moreover, detailed and precise adjustments were added on the activities of the Board and Shareholders' meeting.

The Governance Code of Golomt Bank is developed pursuant to Company Law of Mongolia 2011, Revised Banking Law of Mongolia 2010, Regulation on the implementation of the Corporate Governance Principles approved by the Governor of Bank of Mongolia, Corporate Governance Code issued by the Financial Regulatory Committee, and is enriched with concepts and recommendations from "Principles of Corporate Governance" issued by the Organization for Economic Cooperation and Development in 1999 and further amended in 2004, and "Recommendations to improve Bank Corporate Governance" issued by the Basel Committee in 1999, 2006 and 2010. The work to develop the Bank Governance Code started in December, 2013 at the initiative and under supervision of Mr. J. Unenbat, an independent member of the Board and CEO of Corporate Governance Development Center, and it was discussed and approved at the Board meeting in March 2014.

The Corporate Governance Code consists of the following parts:

1. Stakeholders to Golomt Bank's governance
    - Shareholders rights
    - Board of Governors
    - Executive management
    - Auditing and reporting

2. Other associated policies
    - Code of ethics
    - Conflict of interest regulation policy
    - Fair disclosure policy
    - Anti-corruption policy
    - Anti-fraud policy
    - Policy on making political contributions
    - Whistleblowing policy

Code of Ethics

Golomt Bank's Code of Ethics is the document that sets values and ethical standards for business conduct of its employees. The document was first approved in 2010 by the Decree of Chief Executive Officer, and some amendments were incorporated during the reporting period by the Board resolution. Thus the Code has become a significant document to be observed by not only the employees of Golomt Bank but also by the Board members, competent officials and employees of the Bank's subsidiaries.

Shareholders of Golomt Bank

Common

Bodi International LLC	84.66%
Swiss-MO Investment AG	10.16%
Trafigura Beheer B.V.	5.02%
Employee Stock Ownership Programme	0.16%

Bodi International LLC

Bodi International LLC, a holding company of Bodi Group, is one of the leading business groups of Mongolia with over 2,200 employees and is actively engaged in banking and financial sector, real estate management, agriculture, construction, investment and services. The Group has been expanding its business, carrying out a broad range of activities, and makes valuable contribution to social and economic development of Mongolia thanks to the efficient management and efforts of its highly skilled and experienced team.

Swiss-MO Investment AG

Swiss-MO Investment AG is an investment firm, operating globally in the field of acquisition, management and sale of shares, and offers consulting services on investment. It is registered in the Canton of Grisons in Switzerland and its primary shareholder is Mr. Urs E. Schwarzenbach, a well-known Swiss financier, entrepreneur and the Honorary Consul of Mongolia to Switzerland. He invested USD20 million in June 2011, purchasing 10.16 percent shares of Golomt Bank.

Trafigura Beheer B.V.

Trafigura Beheer B.V. is the international corporation which has become the third largest oil trader in the world and the second largest independent trader in the non-ferrous concentrates market since its establishment in 1993. It invested USD15.9 million in March, 2012 and was granted the ownership of 5.02 percent shares of Golomt Bank.

Employee Stock Ownership Programme (ESOP)

A generous ESOP was introduced in 2011 to satisfy the long-term interests and benefits of our valued employees and increase employees' engagement in the Bank's management to strengthen the corporate governance. The programme was continued during the reporting period and projected to be implemented further. During the reporting period, 54 employees who effectively worked many years for the bank have become common shareholders of Golomt Bank. In 2013, the number of employees who owns shares of Golomt Bank reached 98, accounting for 0.16 percent of the Bank's equity.

Preferred shareholder

Mr. Zorigt Munkhchuluun bought the Bank's preferred stock worth USD10 million in December 2013, thus, has become the only preferred shareholder of the Bank.

BOARD OF GOVERNORS

The Board of Governors comprised of five members who have extensive knowledge and experience in international banking, finance and business by the end of reporting period. Mrs. Ch.Munkhtsetseg was appointed as the Chairwoman of the Board in December 2013 and the Board members include Mr. Z.Temuun, Mr. D.Munkhtur, Mr. Urs E. Schwarzenbach, and Mr. J.Unenbat, an independent member of the Board. According to the Charter revised in December 2013, the possible number of Board members was increased to 9 (previously it was 7) and the decision was issued by the

From left: D.Munkhtur, Urs E. Schwarzenbach, Ch.Munkhtsetseg, Z.Temuun, J.Unenbat

Shareholders' meeting to increase the number of independent members to no less than 2. These changes have become an important step to enhance the independence of the Board as well as the Bank's governance. Golomt Bank is making efforts to increase the number of Board members, thereby, to strengthen competence and independence of the Board.

During the course of the reporting year, the Board held 8 meetings and resolved 25 issues in total. The average attendance rate was 82.5 percent.

Board Composition

Mrs. Ch.Munkhtsetseg, Chairwoman of the Board

Mrs. Ch.Munkhtsetseg graduated from the Polytechnic University with a degree in Electrical and Mechanical Engineering in 1993 and obtained her MBA in 2001 from John Hopkins University. She started her career with the Mongolian Stock Exchange and continued at the World Bank, Asian Development Fund, and Nepko Publishing Company. Mrs. Ch.Munkhtsetseg is the Executive Editor of TOIM, weekly magazine. She was appointed as the Chairwoman of the Board in December 2013.

Mr. Z.Temuun, Member of the Board

Mr. Z.Temuun graduated from Strayer University in Virginia, USA with BA in Business administration in 2006, and completed his MBA at George Mason University of Washington DC, USA in 2012. He acquired his experience, working at subsidiary companies of Bodi Group. He was appointed as a member of the Board in December 2012.

Mr. J. Unenbat, Independent Member

Mr. J.Unenbat is the Executive Director of the Corporate Governance Development Center and worked as Head of the Finance Department at the Institute of Finance and Economics. He started working for the Bank of Mongolia in 1996 and gained tremendous experience while conducting research on monetary policy. Mr. J.Unenbat was elected as the Executive director of the Mongolian Bankers Association in 2000. He graduated from Moscow Institute of Economics and Statistics in 1985 and obtained his MA from Columbia University, New York in 1994. He was elected as an independent member of the Board in 2010.

Mr. Urs. E. Schwarzenbach, Member of the Board

Mr. Urs. E. Schwarzenbach graduated from Commercial College of Zurich, Switzerland and worked for Union Bank in Zurich (1968) and London (1972). He started his own business in 1976 and was awarded Honorary PhD title in 2000 by the University of St. Francis Xavier in Canada. He has been a member of the Board since 2011.

Mr. D. Munkhtur, Member of the Board

Mr. D. Munkhtur graduated from Institute of Economics of the National University of Mongolia with a degree in Finance in 1997. He obtained his MBA from Oklahoma University, USA, in 2009. He started his career at Golomt Bank in 1996 and since then he worked as an Economist, Director of Credit Division and Director of Operations Division. He was appointed as Executive Vice President and Chief Operating Officer in 2011 and as a member of the Board in 2012.

Committees

Audit Committee

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

Risk Management Committee

Risk Management Committee is established by the Board of Governors and reports directly to the Board. The Committee makes appropriate recommendations on measuring, limiting and mitigating risks in order to manage all possible risks. Moreover, the Board approves the Bank's risk management policy and the head of the Risk Management Department is provided with the conditions to directly report to the Risk Management Committee of the Board and obtain relevant recommendations and guidance.

Remuneration and Nomination Committee

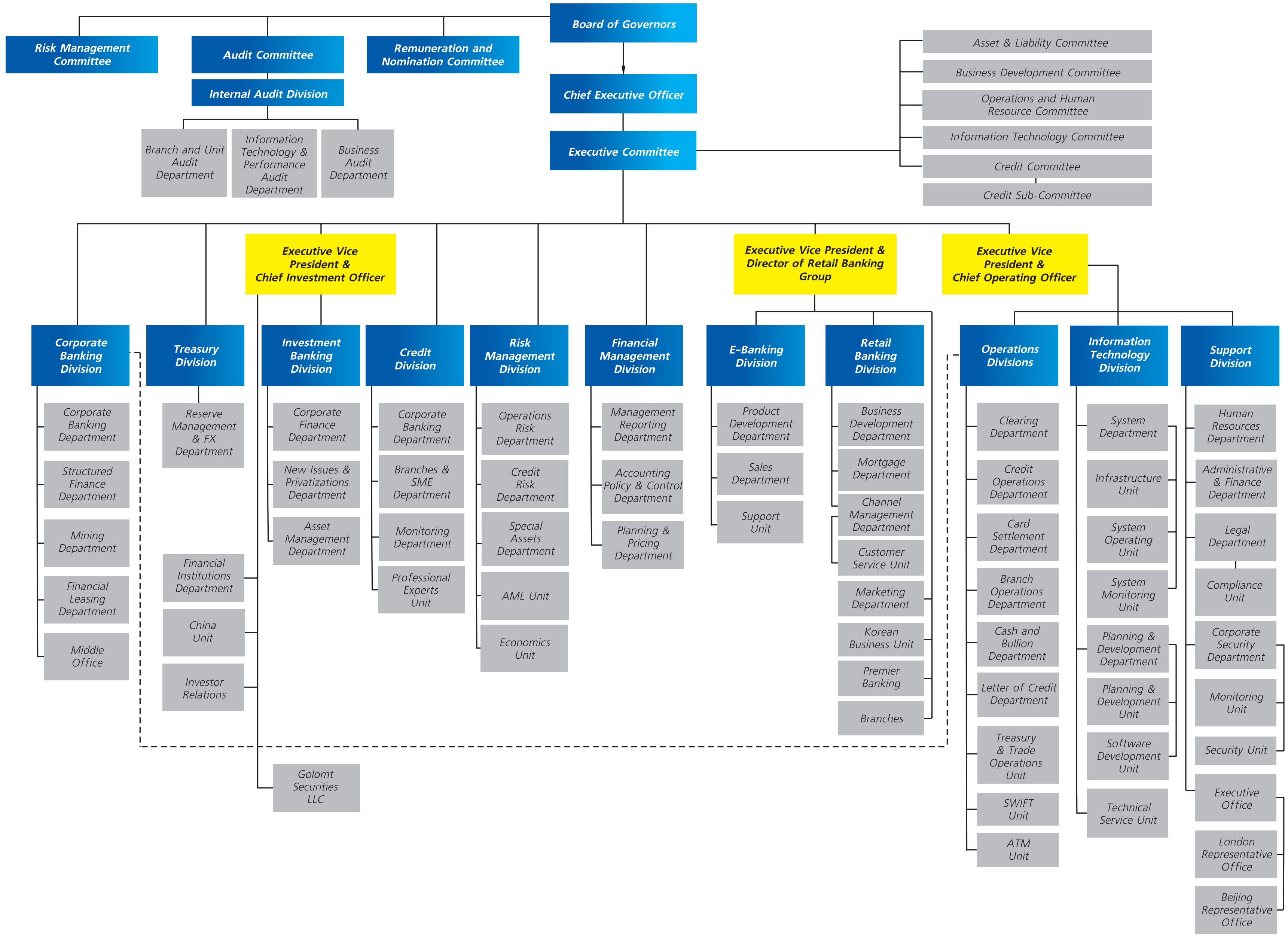
Remuneration and Nomination Committee is established by the Board of Governors and operates with independent members in order to provide recommendations to the Board on selecting, appointing, dismissing Board members and Management team along with developing and approving the compensation and remuneration system. The Committee is responsible for setting a pertinent selection and incentive system for the Board members and management team, reviewing and assessing their work performance, and providing recommendations and proposals to the Board.

Internal Audit

The Board establishes the Internal Audit Unit independently from the Management and sets guidance and directions on approving its budget and personnel, appointing its management and employees, defining operational regulations, setting the amount of wages and remuneration, assessing auditor's performance as a team or individually, and carrying out inspection.

ORGANIZATIONAL STRUCTURE

We regularly improve the organizational structure of the Bank upon reflecting its fundamental objective of remaining the customer-centric organization as well as the Bank's business strategy and aligned with the expansion of our business and market demands.



Board of Governors
Chief Executive Officer
Executive Committee
Risk Management Committee
Audit Committee
Internal Audit Division
Remuneration and Nomination Committee
Branch and Unit Audit Department
Information Technology & Performance Audit Department
Business Audit Department
Asset & Liability Committee
Business Development Committee
Operations and Human Resource Committee
Information Technology Committee
Credit Committee
Credit Sub-Committee
Executive Vice President & Chief Investment Officer
Executive Vice President & Director of Retail Banking Group
Executive Vice President & Chief Operating Officer
Corporate Banking Division
Corporate Banking Department
Structured Finance Department
Mining Department
Financial Leasing Department
Middle Office
Treasury Division
Reserve Management & FX Department
Financial Institutions Department
China Unit
Investor Relations
Investment Banking Division
Corporate Finance Department
New Issues & Privatizations Department
Asset Management Department
Golomt Securities LLC
Credit Division
Corporate Banking Department
Branches & SME Department
Monitoring Department
Professional Experts Unit
Risk Management Division
Operations Risk Department
Credit Risk Department
Special Assets Department
AML Unit
Economics Unit
Financial Management Division
Management Reporting Department
Accounting Policy & Control Department
Planning & Pricing Department
E-Banking Division
Product Development Department
Sales Department
Support Unit
Retail Banking Division
Business Development Department
Mortgage Department
Channel Management Department
Customer Service Unit
Marketing Department
Korean Business Unit
Premier Banking
Branches
Operations Divisions
Clearing Department
Credit Operations Department
Card Settlement Department
Branch Operations Department
Cash and Bullion Department
Letter of Credit Department
Treasury & Trade Operations Unit
SWIFT Unit
ATM Unit
Information Technology Division
System Department
Infrastructure Unit
System Operating Unit
System Monitoring Unit
Planning & Development Department
Planning & Development Unit
Software Development Unit
Technical Service Unit
Support Division
Human Resources Department
Administrative & Finance Department
Legal Department
Compliance Unit
Corporate Security Department
Monitoring Unit
Security Unit
Executive Office
London Representative Office
Beijing Representative Office

MANAGEMENT TEAM

As it is reflected in both financial and operational results, the Bank has highly professional and experienced management team who have been serving the Bank since its onset and early years. According to organizational structure, the management team is comprised of Chief Executive Officer, Executive Vice President and Chief Operating Officer, Executive Vice President and Chief Investment Officer, Vice Presidents and Directors of Divisions.

D.Munkhtur
Executive Vice President & Chief Operating Officer

L.Bolormaa
Executive Vice President & Chief Investment Officer

M.Chimegmunkh
Vice President & Director of Financial Management Division

N.Tserendavaa
Director of Information Technology Division

B.Munkhbaatar
Director of Treasury Division

R.Batsuren
Director of Internal Audit Division

D.Sugar
Vice President & Director of Retail Banking Division

L.Oyun-Erdene
Vice President & Director of Corporate Banking Division

M.Chingun
Vice President & Director of Risk Management Division

T.Nyamsuren
Director of Credit Division

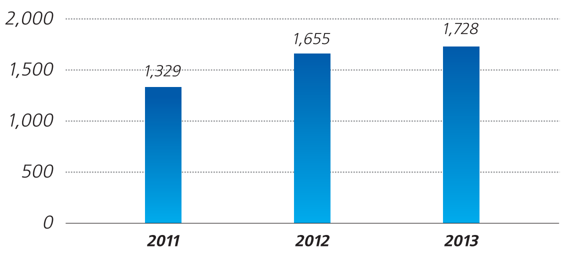
Z.Khaidar
Director of E-Banking Division

Yo.Purevbat
Director of Operations Division

HUMAN RESOURCES

The core value of Golomt Bank is its highly professional, creative and dedicated employees. The Bank's HR Policy in 2013 focused on improving the skills of employees, increasing the number of employees capable working globally, and creating the environment to promote long-term stable employment.

Number of Employees



By the end of 2013, the Bank has 1,728 employees, 66 percent of which serve in front-line service delivery positions throughout the branch offices. The remaining 34 percent serve as support staff at headquarter office. During the reporting year, the Bank successfully carried out the recruitment campaign under the slogan "Success starts with the Right Job!" among students of the universities and institutes; as a result, we welcomed more than 100 newly graduates to our family.

Human Resource Indicators

	2012	**2013**
Number of employees	***1,655***	***1,728***
Branch offices	*1,113*	*1,149*
Head office	*542*	*579*
Gender Ratio (Male/Female)	***32/68***	***31/69***
Branch offices	*23/77*	*25/75*
Head office	*46/54*	*44/56*
Middle management	*49/51*	*50/50*
Senior management	*71/29*	*67/33*
Average age of employees	***28.8***	***30.5***
Professional Qualifications		
Vocational training	*9.4%*	*10.2%*
Bachelors /Mongolian Universities/	*73%*	*75.8%*
Masters /Mongolian Universities/	*9.8%*	*7.3%*
Bachelors /International Universities/	*4.4%*	*3.9%*
Masters /International Universities/	*3.4%*	*3%*

Remuneration policy

The main factor to promote long-term stable employment for highly potential employees is the Remuneration and Incentive policy. Therefore, the Bank has established and been working to improve the remuneration package pertinent to individual employee's work performance to efficiently control labor cost, improve workforce productivity and create the environment to promote long-term stable employment.

- The Bank started implementing a remuneration system based on 6 job grades in 2012 and successfully appraised its employees for the 2nd time in 2013;
- The Bank has successfully implemented a team incentive system and started involving all employees;
- Employee Stock Ownership Program – The Bank has been implementing Employee Stock Ownership Program as leverage for employees to work stably on a long-term basis since 2011. As a result, 507 employees obtained Option certificates with 98 becoming Shareholders;

- First Pension Fund – As an incentive to motivate long serving employees and provide financial security for our employees after retirement, the Bank established the first Private Pension Fund in Mongolia in 2010. Since its establishment, 1.197 employees of Golomt Bank joined the Fund voluntarily and the Bank's investment in the Fund increased by MNT 302.2 million from the previous year.

Training and Development

The Bank pays particular attention to 3 levels of employee development, including preparation of a variety of training and development programs, their development and training in order to improve professional skills of the employees, and enhance their ability to perform globally.

Training indicators

	2012		2013	
Training expense /MNT/		*397,845,108*		*399,481,172*
Training statistics	*Training participants*	*Training hours*	*Training participants*	*Training hours*
Overseas training	*28*	*1,372*	*44*	*9,333*
Internal training	*2,555*	*47,627*	*1,640*	*23,313*
External training	*750*	*11,231*	*1,359*	*16,335*
Total	***3,333***	***60,230***	***3,043***	***49,581***

3,043 employees, duplicate in numbers, attended 49,000 man/hour training programs in 2013 within the Bank's training and development policy. The Bank carried out the following training and development programs:

- Organized "TOP Manager's Training" and programs to improve the management of subsidiaries to develop leadership skills of the higher level managers;
- Successfully implemented a new mentorship program for newly recruited employees as well as internally transferring employees;
- Implemented successfully HR rotation policy to improve multi-skills and work productivity of the employees;
- Enrollment in overseas training programs increased from the previous year. During the reporting period, the employees attended more than 30 programs, organized in 12 countries, including India, Russia, USA, Germany, Malaysia and Belgium;
- Upgraded Kaizen, continuous productivity improvement program, in 2012 to create dynamic and innovative environment where new ideas and suggestions made by the employees are being supported. As a result, 1,620 ideas were submitted by over 390 employees. Of which, 11 quality circle teams were selected to bring the above suggestions into practice;
- The Bank successfully organized "New ideas forum" for the second time, where over 60 employees shared their knowledge and experience, to support the initiatives and new ideas of those employees who graduated from overseas institutes or who were enrolled in overseas training, research and experience-sharing programs as well as to introduce the best social and cultural practices to the Bank, and to increase the enrollment of employees in their implementation process.

As a result of HR policy which is focused on continuous employee training and development programs and creation of long-term stable and effective work environment, Golomt Bank received the award "Employer of the Year 2013" from Mongolia Talent Network, the international recruitment agency.

INFRASTUCTURE

The use and scope of the Bank's IT based products and services, which are advantageous in terms of time-saving, distance-shortening and provision of real possibility for Clients to support their businesses, are expanding day by day. Therefore, there is an inevitable need to regularly develop and innovate these products and services, improve their security and safety ensuring continuous operations, developing new products and making a substantial investment. With the successful implementation of all these, the scope of Golomt Bank's business and operations are expanding rapidly while keeping its leading position in the market.

Key initiatives undertaken during the reporting year:

- Introduced a new version of "AMBIT", the card management solution, and delivered new services based on payment card to customers;
- Improved online payment system and introduced 3D Security, that supports AMEX, UPI cards;
- Expanded the main network capacity and improved its security;
- Revised IT policies, regulations and documentations based on international standards;
- Introduced 2.0 version of the Internet banking service for retail and corporate customers;
- Extended Data center to prepare the Bank's information system for further expansion;
- Launched online tax payment service;
- Introduced 2.0 version of "Smart Bank", the application for mobile phones (Blackberry, I-phone and Android);
- Introduced e-Fax system;
- Launched the service to issue the Tender guarantee (internal guarantee) electronically in cooperation with the Ministry of Finance;
- Introduced a new software that improves Call center system and provides quicker and categorized help desk services to customers;
- Carried out a full-scale test to ensure the capacity of the Bank's online services are in accordance with international standards;
- Introduced a reporting system which is capable to develop reports at a managerial level while supporting and expediting the decision making of the Bank's business.
- Worked in cooperation with Infosys to introduce its "Finacle", one of the leading Core banking systems in the world.

BUSINESS REVIEW

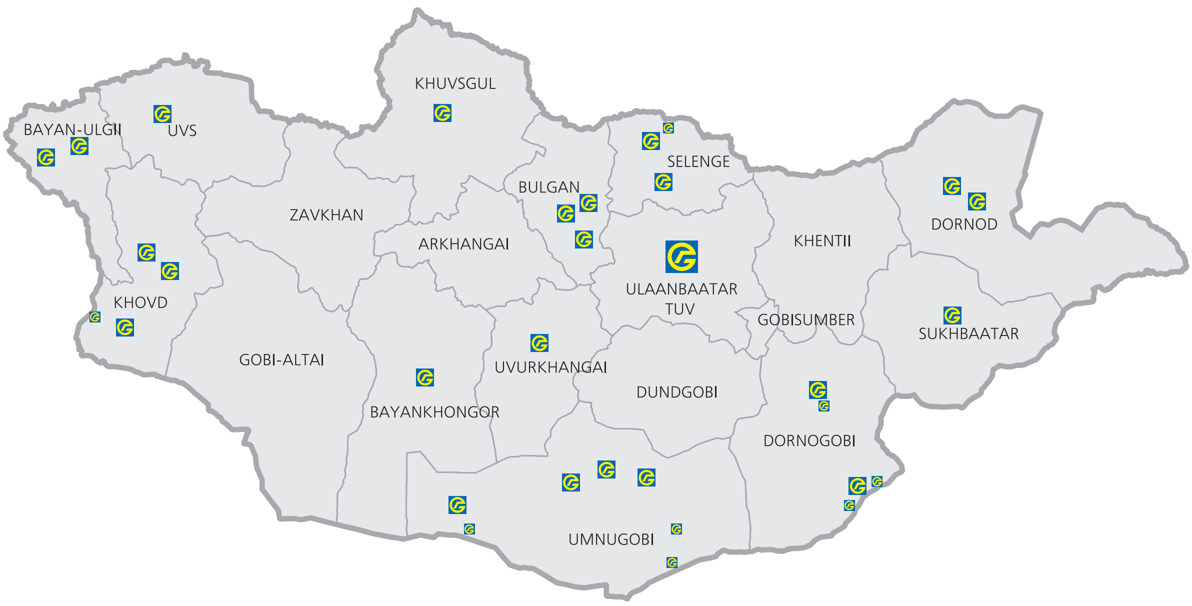
THE CURRENT REPORTING YEAR HAS BEEN REMARKABLY SUCCESSFUL YEAR FOR OUR BUSINESS WHILE STRONGLY SUSTAINING OUR LEADING POSITION AS THE MOST INNOVATIVE BANK OF MONGOLIA, GOLOMT BANK ACTED NOT ONLY AS THE FINANCIAL POWER OF OUR CLIENTS BUT ALSO AS AN ADVISOR.

RETAIL BANKING BUSINESS

In recent years Small and Medium Enterprises (SMEs) sector is developing significantly and the number of entrepreneurs is on the rise. Therefore, the main purpose of the Retail Banking in Golomt Bank is to provide comprehensive service package that meets financial needs of entrepreneurs and middle-income populace to its highest possible quality level and subsequently contribute to their growth and development.

Expansion of branch network and e-channels

Golomt Bank is continuously implementing its strategy to increase access to its branch network upon considering the economic growth in Mongolia. Within the framework of this purpose, it opened 5 new branches and expanded the scope of its operations with 97 branch offices, in total. Today, 56 percent of its branches operate in Ulaanbaatar, whereas 44 percent are located in 13 provinces of Mongolia.



Opening modern style banking offices in Dornod and Dornogovi provinces has become an important step to create conditions for individuals and customers to receive all types of banking services in a more convenient environment. These new buildings are designated specifically for banking activities that meet international standards while becoming a large scale investment to the local development and greatly contributed to its further development.

Introduction of "Self Service Banking", a brand new service by Golomt Bank in 2012, already received appraisal from its customers. It provides Golomt Bank card holders with an opportunity to deposit cash into their accounts without going to the Bank at any time and prevented from any cash related risks. Therefore, Golomt Bank works with the purpose to expand the scope of this service and provide easier access to its customers. As a result, the number of Self Service Banking units reached 11 and the Bank also installed 15 new ATMs.

Golomt Bank has been paying a particular attention to develop internet banking service and e-banking channels to improve the speed of its service as a leading Bank and innovator of new ideas in the banking and financial sector of Mongolia. The innovative internet banking services, we introduced the development of IT and communications technology sector, enhance our clients' awareness of online services; consequently, promote the use of online banking services, reducing cash transactions. During the reporting year, the following increases were recorded:

- Active users of online banking by 131 percent;
- Number of transactions made online by 268 percent;
- Amount of transactions made online by 93 percent;
- Number of online account holders by 43 percent;
- Number of users receiving credit and debit transaction information through "Easy Info" text messaging by 102 percent;
- Number of mobile-bank users by 79 percent, respectively.

During the reporting year, Golomt Bank sustained its leading position in online banking service of Mongolia and introduced the new services below for the first time in Mongolia:

- Golomt Bank, which introduced the first international payment card in Mongolia, introduced MNT based international MasterCard, which enables to make payment in MNT anywhere in the world. The Bank is currently preparing to introduce American Express Gold Card, the world's leading card, for the first time in Mongolia.
- Golomt Bank introduced version 2.0 of "Smart Bank", the application for smart phones, the first of its kind in Mongolia's banking services; thus, opening new opportunities for its clients:
  - Improvement of Smart Bank services made the customer have "Account Book" where the account number used often for transactions is stored,
  - Classify income and expenditure on the account statement menu and see scheduled reporting on expenditure,
  - If it becomes necessary to know from where transaction is made using Smart Bank service, it is possible to see the location on the map,
  - The Client is able to store loan due date on his/her phone calendar,
  - The revised version included other options such as adding or deleting new account to Smart Bank service, naming the account and ordering it.

Golomt Bank brings advanced equipment and technology-based new ideas and initiatives into practice by setting an objective to make banking and financial services closer, time-efficient and customer oriented.

- The Bank, in cooperation with the Tax Authority of Mongolia, introduced a brand new service that enables individuals and entities to submit Tax payment online, which brought the state service one step closer to our clients.
- Introduced a "3D Security" for credit cards in order to improve safety and security of online purchasing.
- Upgraded internet banking and text messaging services. These include:
  - Customers are now able to activate Message banking, Easy info and Mobile banking services in the internet

banking service and change phone numbers,

- Customers are now able to obtain and change 3D Security code for online shopping using internet banking service,
- Upgraded the utilization payment service in the internet banking service, increased the number of organizations involved, recorded those organizations which make regular payment, and made the service easier for these organizations.
- Increased the service speed for "Message reporting on transaction", send the information on outstanding balance when the transaction is made, and introduced the service to send simultaneously the report by an e-mail.

The Global Finance, a well-known financial magazine in the sector which selects the best in the International banking and financial sector, named Golomt Bank as the Best Internet Bank of Mongolia- 2013 upon considering the main criteria, including products and services based on internet banking, their advanced technological solutions, innovation and use, and increase of the number of customers who use internet products and services.

SME Banking Service

SME sector is one of the fundamental constituents of the socio-economic development in Mongolia. The growth of SME sector brings positive results to the economy as it creates new jobs and improves living standards. Therefore, Golomt Bank has been carrying out various activities aimed at supporting SME and implementing targeted projects and programs in cooperation with the Government Agencies and International Organizations:

- "Two Step Loan Project for SME Development and Environmental Protection" financed by JICA,
- Private Sector SME Support Project, financed by KFW Bank of Federal Republic of Germany,
- "Loan to Support Creation of Jobs in SME sector", financed by Asian Development Bank,
- SME Development Fund Projects.

Golomt Bank participated in the Price Stabilization Program implemented by the Government of Mongolia:

- "Subsidized rate loan designated to liquidate seasonal supply limitation for construction materials (cement and reinforcing steel), required to be imported"
- "Staple Food Price Stabilization Subprogram"
- "Subsidized rate loan subprogram to stabilize flour prices"
- "Subsidized loan subprogram to secure coal reserves, ensure preparation of fuel and energy sectors for winter and stabilize energy prices and tariffs"
- Loan programs to finance housing to support construction sector and housing supply.

Within the Program to support strategically important sectors with the funds of Chinggis Bond, Golomt Bank and the Ministry of Industry and Agriculture support 5 sub-sectors such as Wool, Cashmere, Greenhouse, Dairy farming and Garment industry, and provide project financing for equipment renewal.

Golomt Bank is the only commercial bank which is given the privilege to provide financing to projects that bring yields to the country in the future with the funds of Chinggis Bond. It solved the financing of MNT91.7 billion for 54 SMEs of which, it disbursed MNT 45.3 billion in the reporting period.

As a result of the above mentioned projects and programs, the project loan portfolio of the Bank reached to MNT 254.3 billion in total.

Golomt Bank has signed an agreement with the "Loan Guarantee Fund" (LGF) in May 2013 to increase the funds required for SME activities and support a group of Clients that lack in collateral. As a result of this cooperation, Golomt Bank's share in the guarantee issued by LGF constitutes 58.8 percent of the total guarantee. 21 customers of Golomt Bank have been endowed guarantee from LGF, worth MNT 2.2 billion in the reporting year.

Golomt Bank actively supports the policy of the "Sustainable Financing Principles", implemented at the initiative of the Mongolian Bankers Association. Within the framework of this policy, it cooperates with all banking and financial institutions in Mongolia to introduce the method to apply financial leverage to develop environmentally friendly, socially responsible and highly ethical enterprises.

Mortgage financing

The main goal of Golomt Bank's mortgage financing is to support individuals to possess their own apartments and real property.

Total mortgage loan package increased by 105 percent, reaching MNT 510 billion from MNT 248 billion of the previous year, and the number of mortgage loan borrowers increased by 58 percent, reaching 12,029.

The Bank works in partnership with over 20 leading national construction companies and offers the opportunities for citizens to purchase the apartments constructed by these companies on flexible terms.

Golomt Bank was actively involved in the "Housing Mortgage Program with 8±1 percent interest per annum", implemented by the Government and the Bank of Mongolia, refinancing 4,828 households which previously received housing loans with MNT 131 billion and disbursing newly MNT 227 billion to 4,067 households; thus, it accounts for 30 percent share in the mortgage market of Mongolia.

Consumer loans

Consumer demand for tangible assets such as vehicles, electronic appliances, consumer goods and educational services has increased in recent years and it clearly shows that the purchasing power of citizens is improving. Therefore, Golomt Bank has been working in cooperation with many reputable entities which supply well-known quality products and developing consumer loan products within its possible capacity to supply this rising demand, support the livelihood of fixed income individuals and households to finance their short-term cash needs.

During the reporting year, consumer loan increased by MNT 44.1 billion, reaching MNT 176.8 billion, an increase by 33.2 percent, compared to MNT 132.7 billion recorded at the end of 2012.

FINANCIAL INSTITUTIONS AND TRADE FINANCE

Golomt Bank has been expanding business partnership by cooperating closely with over 30 internationally recognized banks and financial institutions. We expand business cooperation through our correspondent banks in the areas of trade financing, foreign currency exchange and foreign transactions to meet the rising demand of our customers.

Currently we provide a variety of financial services, including foreign transactions, foreign currency trade financing, stand-by letters of credit, letters of guarantee and direct loans through the international banking and financial organizations with whom we have direct correspondent banking relations such as Industrial Commercial Bank of China, Agricultural Bank of China, Bank of China,Taiwan Exim, BHF Bank, ING Bank, Deutsche Bank, CommerzBank, Export Import Bank of Korea and BNP Paribas.

We have established new correspondent banking relations with major international institutions such as Kookmin Bank of Korea and SBER Bank of Moscow, Russia. We continue to broaden partnership relations with leading international banks in the international money market to extend the possibility to engage in currency exchange upon meeting the demands and needs of the customers.

The range of imported products is increased; thus, foreign trade is carried out through many countries. Accordingly, a need is arisen for the Bank to increase the number of correspondent banks to engage in trade financing and it has become possible for Golomt Bank to get the service of Letter of Credit through international banks, including BNP Paribas of France, Banco Espirito Santo of Portugal and Credit Europe of the Netherlands. Furthermore, we invited 2 experts from the Bank of China to work at our bank to promote business cooperation with the China, which remains the largest trade partner of Mongolia, and aim to provide support to Chinese individuals and entities, engaged in business in Mongolia.

Golomt Bank has worked as a financial bridge to support the financial power of its customers upon developing new relations with international banking and finance institutions and creating mutually beneficial partnership, and it focused on nurturing the cooperation with current partners and increasing the range of business activities.

Main Trade Finance Partners

Commerzbank AG, Frankfurt am Main

Deutsche Bank AG, Frankfurt am Main

Atlantic Forfaiterungs AG, Zurich Switzerland

Asian Development Bank, Manila

Industrial & Commercial Bank of China

Baoshang Bank, China

The Export-Import Bank of the ROC, Taiwan

BHF-Bank AG, Frankfurt am Main

The Export-Import Bank of Korea, Seoul

Nordea Bank Finland PLC, Helsinki

Kuveyt Turk Katilim Bankasi A.S., Istanbul

BNP Paribas, Switzerland

Daegu bank, Korea

Kazkommertsbank, Kazakhstan

SACE, Italy

Banco Popolare Di Vicenza, Italy

CORPORATE BANKING

2013 has been yet another successful year for Corporate Banking Division of Golomt Bank as it strengthened its client base by working closely with and further developing mutually beneficial relations with various public and private enterprises, entities involved in numerous development projects and programs, embassies, diplomatic representatives, international development agencies both domestic and international organizations.

The Corporate Banking Division provides the service that meets the growing demand of various financial needs of client organizations including transactions, credit facilities, foreign trade financing, co-financing, project financing, export financing, financial leasing and currency exchange.

It concluded Cooperation Agreement on Import Financing guaranteed by Export Credit Agencies with BHF Bank and Commerzbank of Germany. Thanks to this cooperation, we provide low interest long-term loans to large national entities which introduce new technology and import equipment from OECD member countries and European Union. This creates a favorable financial condition for implementers of reconstruction projects and programs.

Moreover, number of development projects and programs have been started with the funds of Chinggis bond supporting the development policy of the country. For instance, the Bank has signed Memorandum of Understanding with Stoll and Shima Seiki Corporation, the manufacturers of knitting machines, on supplying knitting equipment, and it provides direct loans of export financing to its customers under a favorable condition and is opening new opportunities for cooperation.

Banking Service for Mining

Mining Department was established in 2008 by the Corporate Banking Division to properly determine the financial needs of its customers, the companies engaged in mining, which has become the leading sector of the economic development. Although 2013 was a challenging year for mining sector with unstable condition created at the world raw materials market, Golomt Bank has supported the stable development of this sector, overcoming the challenges together with its clients.

The Bank introduces new products and services with more favorable condition considering the market demands and needs. An opportunity was provided this year for the customers engaged in gold mining to trade gold; thus, making it easier for them to receive other banking products and services such as loan and guarantee in return.

INVESTMENT BANKING

Although foreign and domestic investment climate and financial markets remained challenging in 2013, Golomt Bank has achieved the following accomplishments by making important contribution to the capital market of Mongolia:

- Golomt Bank was selected as one of the 4 commercial banks to engage in settlement of securities trading in July 2012 within the work to transfer securities market transactions into T+3 system. Securities transactions of MNT 61.5 billion were carried out through 4 commercial banks in 2013 and Golomt Bank successfully performed 48 percent of it.
- Golomt Securities, a subsidiary of Golomt Bank, performed 49 percent of total trading at Mongolian Stock Exchange in 2013 and organized the brokerage activities for Government bond secondary market trading.
- It is involved in the Working Group, which includes Mongolian Stock Exchange, Financial Regulatory Commission, Bank of Mongolia, Mongolian Securities Clearing House and Central Depository, brokerage and dealer companies and commercial banks, to introduce and develop Custodian banking services.
- It provides advisory services on investment and capital management to the first Private Pension Fund in Mongolia.

The Investment Banking Division of Golomt Bank is engaged in providing comprehensive investment services to its customers:

- Corporate financing
- Project financing
- Asset management/Custodian bank

Our vision is to promote business development of our clients through the provision of international investment banking services and create an environment that leads to long term mutually rewarding relations. We strive to achieve long lasting relations by providing service that is tailored for each of our client exclusively with the collaborative expertise of Golomt Bank's team of skilled professionals.

Establishment and mutually beneficial cooperation with internationally reputable financial institutions, including global development Banks (donor organizations), export-import Banks, commercial Banks, major private equity institutions, venture capital funds, insurance companies and sovereign wealth funds, is the Bank's main advantage to successfully attract and provide investments and financing for our clients.

Golomt Securities LLC

Since its establishment in 2011 Golomt Securities LLC has been providing high level brokerage services to its customers with the objective to contribute to the development of the capital market in Mongolia and be the leading securities house.

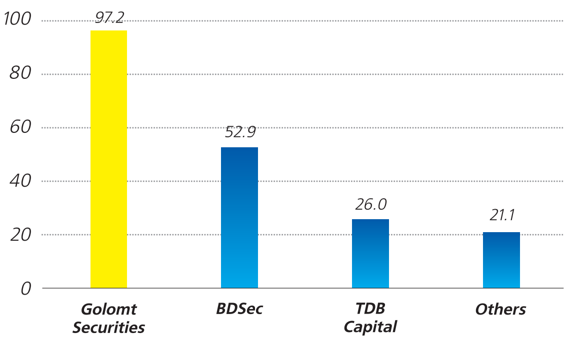
Our services and products include:

- Securities brokerage services at Mongolian Stock Exchange as well as International Stock Exchanges,
- Comprehensive research and reports on securities, commodities and market developments,
- Investment advisory services.

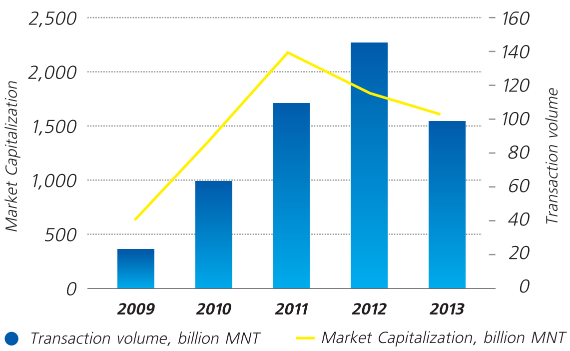
MSE TOP-20 index was closed at 16301.81 points in 2013, a 7.97 percent decrease YoY. The market capitalization of MSE dropped to MNT 1.6 trillion, a 12 percent decrease YoY. 83 brokerage firms opened 9,137 new brokerage accounts nationwide and the total securities trade volume reached MNT 197 billion.

Golomt Securities LLC exclusively executed securities trade of MNT 95.1 billion, which amounted for 49 percent of total trade volume. The company successfully arranged MNT 2 billion Mongolian Government Bond secondary market trade within MIT system for the first time.

Total Stock Transaction Volume of 2013 (Billion MNT)



Source: Mongolian Stock Exchange



Source: Mongolian Stock Exchange

TREASURY

Treasury Division manages the Bank's daily payments and liquidity of the assets and has the indicators set by the Bank of Mongolia. Introduction of interest rate corridor and other monetary policy instruments by the Bank of Mongolia in 2013 maintained not only the stability of the banking system, but also made the monetary policy instruments one step closer to international standards. Golomt Bank used these changes and improvements in its daily payment quality management, mitigated payment risks, and improved the use of its reserve resources.

Securities trade

Along with maintaining the Bank's liquidity, the Treasury Division placed effectively the excess reserves and by the end of 2013 it traded 33.7 percent of the bills issued by the Bank of Mongolia and 17.35 percent of the securities issued by the Government.

Golomt Bank obtained the permit to engage in investment activities on behalf of the Client in initial and secondary Government securities market from the Financial Regulatory Commission in 2013 and led the development of the securities market upon activating the above markets.

The Bank was also actively involved in the programs and monetary policy instruments implemented by the Bank of Mongolia, and employs it successfully in its operations.

Foreign currency trade

Depreciation of MNT against USD by 19.6 percent in 2013 is directly linked to foreign trade deficit and decline in foreign currency reserves as well as foreign direct investment. During this period of uncertainty, Golomt Bank consolidated its leading position in the FX market as it continued regular foreign currency operations; in addition, to becoming a leading financial institution in the banking sector by providing foreign currency hedging opportunities.

Gold trade

Prices for export products in the international market and export revenues of Mongolia saw a decline in 2013. However, Golomt Bank increased its physical gold trading sphere and the Bank's total trade turnover increased by 24 percent from the average volume of past few years.

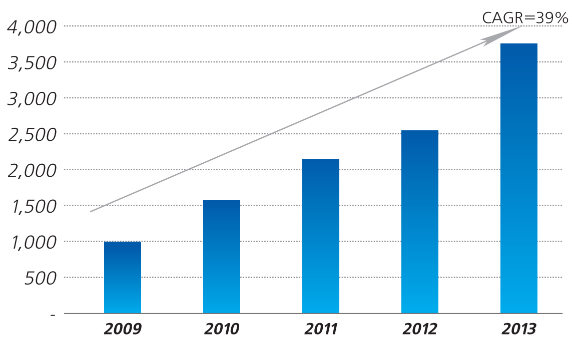
FINANCIAL REVIEW

As a result of effective asset liability management policy to maintain sufficient financial resources as well as to deliver the highest possible return, net profit of the Bank reached MNT 56.9 billion with an increase of MNT 30.7 billion (117 percent) from the previous year.

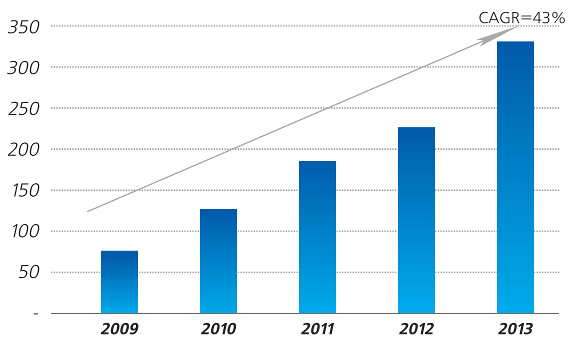
Total assets of Golomt Bank increased by 48 percent or MNT 1.2 trillion from the previous year, reaching MNT 3.7 trillion (USD 2.27 billion) in 2013. The Bank has contributed significantly to target sectors of the Mongolian economy through actively participating and cooperating with projects implemented by the Government as well as by the Bank of Mongolia.

Total capital of the Bank increased by 49 percent or MNT 108.2 billion, reaching MNT 329.7 billion (USD 199.3 million), which was resulted from net profit of MNT 56.9 billion, subordinated loan of USD 10 million received from Bodi International LLC, and preferred shares of MNT 16.4 billion.

Total Assets (MNT Billion)



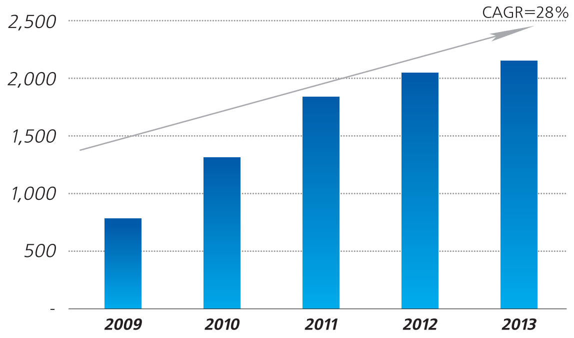
Capital (MNT Billion)



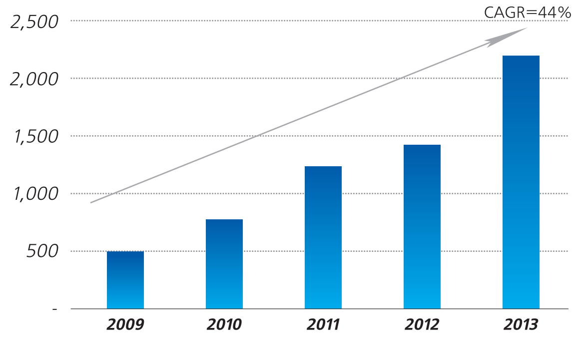
The amount of total deposits increased by MNT 105.1 billion or 5 percent, reaching 2.16 trillion (USD 1.31 billion). This is the largest deposit share of the entire Banking system of Mongolia, constituting 22.6 percent of the total deposit. Individual deposits amounted to 56 percent of the total deposits to the Bank. Therefore, the Bank maintained its leading position in terms of deposits in the banking system.

Net loans amounted to MNT 2.2 trillion (USD 1.33 billion), an increase of 54 percent or MNT 771.4 billion, and this constitutes 21.1 percent of the total loans in the banking system of Mongolia. The Bank increased its mortgage package by more than 90 percent and SME loans by 100 percent, supporting the growth of loans for individuals and SMEs.

Deposits (MNT Billion)



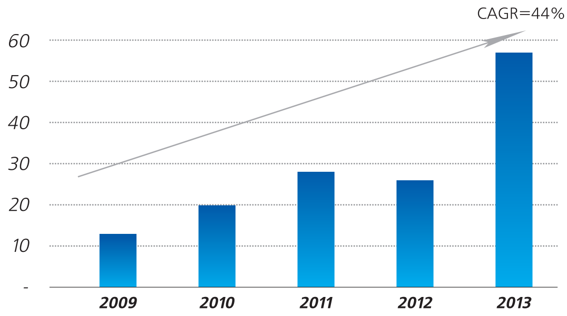
Net Loans (MNT Billion)



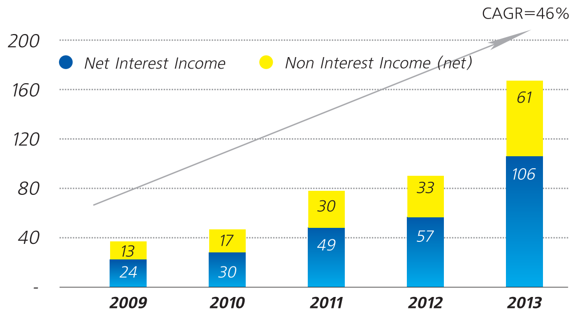
As a result of effective asset liability management policy to maintain sufficient financial resources as well as to deliver the highest possible return, net profit of the Bank reached MNT 56.9 billion with an increase of MNT 30.7 billion (117 percent) from the previous year.

In terms of operational income, the Bank enjoyed net operational income of MNT 167.0 billion with a total increase of MNT 76.9 billion or 85 percent. These thriving achievements resulted from increases of net interest income of MNT 49.1 billion and non-interest income of MNT 27.8 billion.

Post-Tax Profit (MNT Billion)

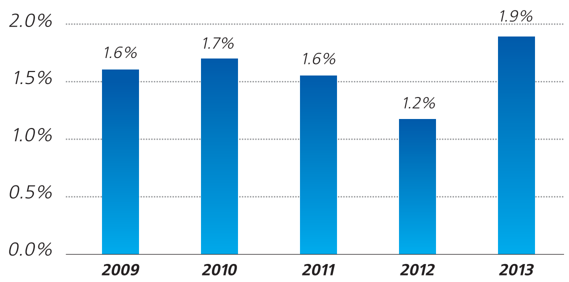


Operating Income (MNT Billion)

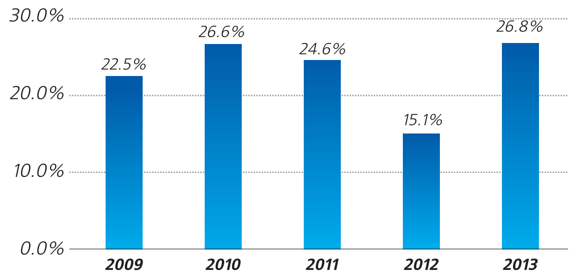


During the reporting period, return on equity increased by 26.8 percent, return on assets by 1.9 percent and net interest margin by 4.6 percent, achieving higher results compared to the previous year.

Return on Average Assets (%)

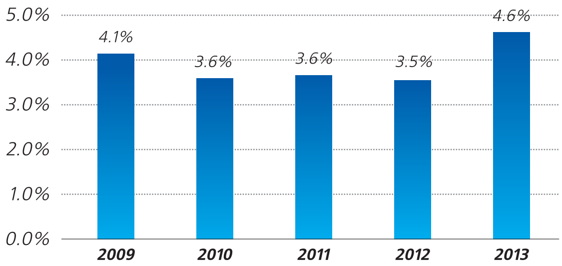


Return on Average Equity (%)

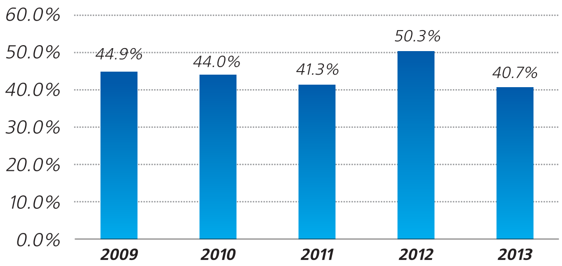


Operational income increased by 85 percent as a result of increased operational cost by 48 percent. A decrease of cost income ratio by 40.7 percent indicates that cost-efficiency improved.

Net Interest Margin (%)

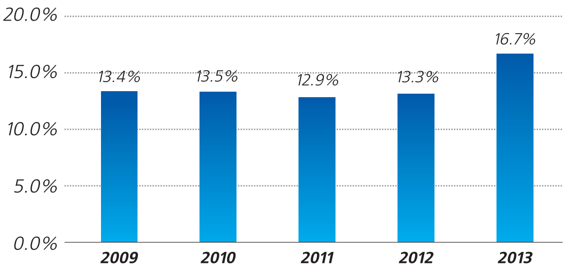


Cost Income Ratio (%)

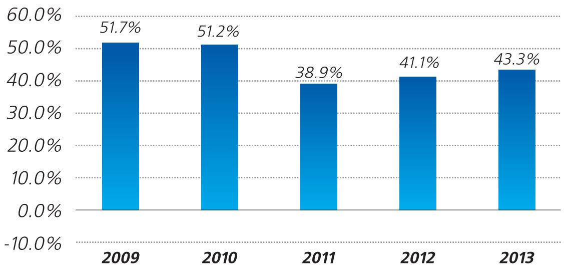


Golomt Bank operated in compliance with all requirements set by the Bank of Mongolia and other regulatory agencies. The capital adequacy ratio of the Bank was 16.7 percent, higher than the required 14 percent set by the Bank of Mongolia. The liquidity ratio of 43.3 percent ensured the requirement set by the Bank of Mongolia and it is one of the highest in the Banking system.

Capital Adequacy Ratio>14%
(BoM requirement changed from 13% to 14% in 2013)



Liquidity Ratio>25%



FIVE YEAR FINANCIAL RESULTS

	2009	2010	2011	2012	2013
Balance Sheet Indicators (MNT million)					
Total Assets	1,013,109	1,573,413	2,134,683	2,526,945	3,749,806
Deposits	795,251	1,317,499	1,839,324	2,056,728	2,161,779
Borrowed funds - Co-financed funds	62,595	28,387	63,429	112,840	1,032,319
Net Loans	505,299	784,605	1,249,341	1,427,852	2,199,228
Capital	78,471	127,774	187,959	221,501	329,740
Profitability Indicators (MNT million)					
Interest Income	81,832	111,157	165,165	200,245	290,945
Interest Expense	(57,905)	(81,448)	(116,240)	(143,127)	(184,701)
Net Interest Income	23,927	29,708	48,925	57,118	106,245
Non Interest Income (net)	13,333	16,749	29,503	32,973	60,780
Operating Income	37,260	46,457	78,428	90,090	167,024
Operating Expense	(16,712)	(21,242)	(32,515)	(45,419)	(67,116)
Credit and Receivables Loss Expense	(3,240)	983	(6,324)	(10,790)	(27,940)
Impairment loss on financial investment	-	-	(2,340)	(1,041)	(1,005)
Pre-Tax Profit	17,308	26,198	37,249	32,841	70,963
Taxation	(4,138)	(6,145)	(9,022)	(6,694)	(14,106)
Post -Tax Profit	13,170	20,053	28,226	26,146	56,857
Financial Structure Ratios					
Deposits / Total Assets (%)	78.5%	83.7%	86.2%	81.4%	57.7%
Equity / Total Assets (%)	6.3%	5.3%	6.5%	7.6%	6.6%
Net Loans / Total Assets (%)	49.9%	49.8%	58.5%	56.5%	58.6%
Non Performing Loans to Total Loans (%)	4.4%	2.1%	2.0%	2.6%	3.5%
Gearing ratio (Total Liabilities/ Total Capital)	11.9	11.3	10.4	10.4	10.4
Profitability					
Return on Average Assets (%)	1.6%	1.7%	1.6%	1.2%	1.9%
Return on Average Equity (%)	22.5%	26.6%	24.6%	15.1%	26.8%
Net Interest Margin (%)	4.1%	3.6%	3.6%	3.5%	4.6%
Cost Income Ratio (%)	44.9%	44.0%	41.3%	50.3%	40.7%
Prudential Ratios					
Capital Adequacy Ratio >13% (BoM requirement changed from 13% to 14% in 2013)	13.4%	13.5%	12.9%	13.3%	16.7%
Forex Exposure Ratios:					
Total Currency <+/-40%	11.8%	17.1%	10.6%	17.7%	7.0%
Single Currency <+/-15%	10.0%	11.2%	-5.1%	-9.5%	-6.2%
Single Borrower Exposure/Capital funds <20%	19.9%	17.6%	19.8%	19.0%	15.9%
Related Party Exposure <5%	3.5%	3.4%	3.4%	3.5%	3.0%
Related Party Exposure-Total <20%	15.9%	10.3%	12.7%	9.5%	8.2%
Liquidity Ratio >25%	51.7%	51.2%	38.9%	41.1%	43.3%
Fixed Assets Ratio <8%	0.7%	1.6%	1.5%	1.5%	1.6%

RISK MANAGEMENT

GOLOMT BANK PURSUES A PRUDENT RISK POLICY AIMED AT MAINTAINING A MODERATE RISK PROFILE, WHICH IS REFLECTED IN OUR COMFORTABLE LIQUIDITY POSITION AND ROBUST CAPITAL POSITION.

Credit risk management

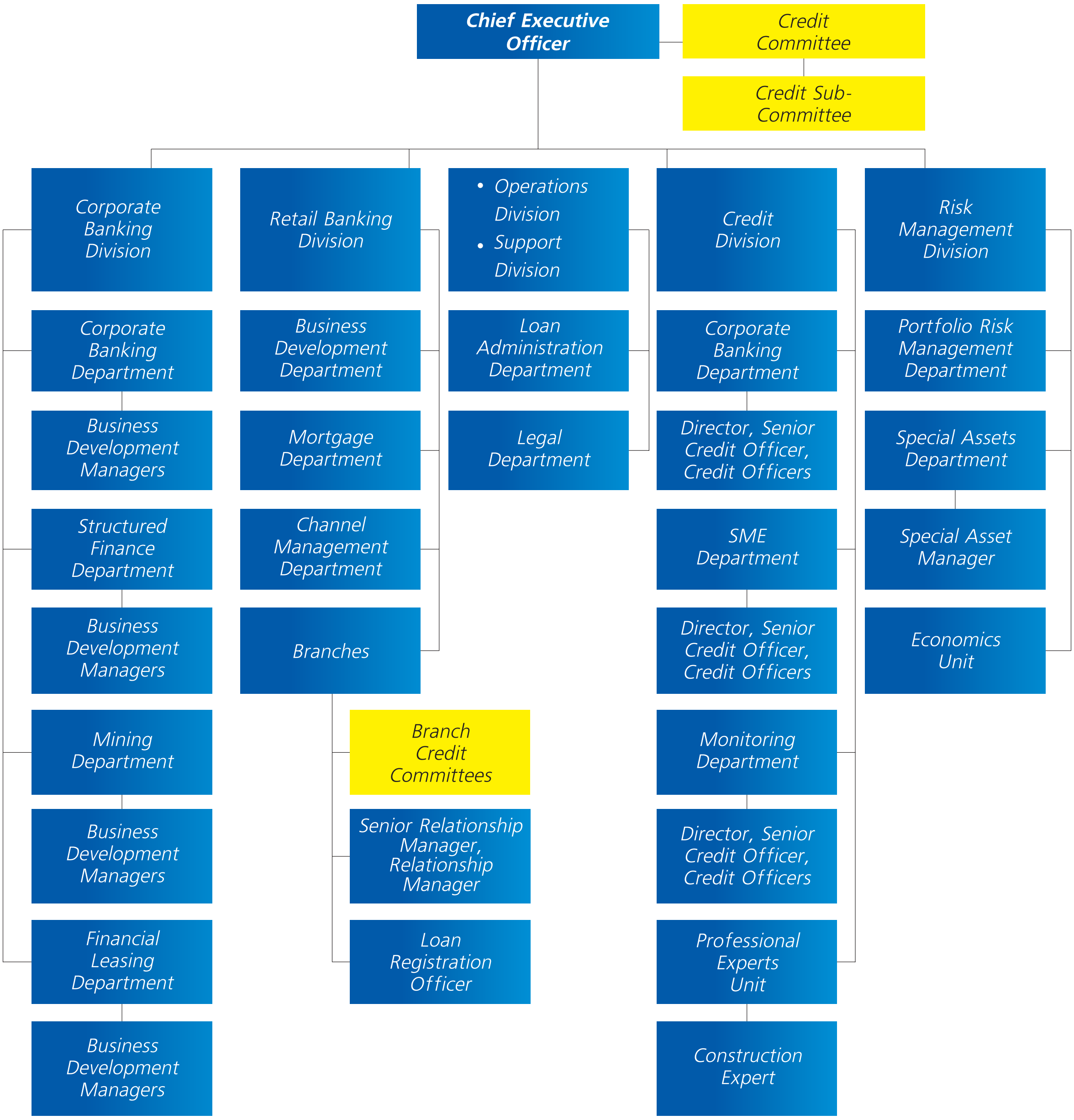
Credit risk refers to a risk when borrower fails to meet its loan agreement obligations in due time. We are generally exposed to credit risks primarily through loan portfolio, investment assets and contingent liabilities. Credit risk is managed upon setting comprehensive limits on each individual borrower and economic sector by involving loan, guarantee, warranty, letter of credit, interbank deposit and other financial instruments. If necessary, we set limits on all asset management operations and manage the risks.

Credit operations, strategy, policy and procedures of Golomt Bank adhere to 16 Basic Principles of Credit risk management approved by the Basel Committee. These principles provide guidance for the management and control of credit risk by way of 16 principles, which include (i) creating an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit recording, measurement and reporting process; and (iv) ensuring realistic and effective supervisory structure.

Our credit policy is intended to mitigate the credit risks arising out of our lending activities in the context of our growth strategy to a possible minimum level. For the purpose of our credit policy, we assume that Mongolia's economy will continue to grow over the medium term and, accordingly, we plan to accommodate further expansion of our loan portfolio while maintaining our stringent credit approval standards. The Bank's Board of Governors, Risk Management Committee and management team are responsible for periodically reviewing and approving our credit strategy and policies. The Board of Governors is responsible for setting and managing the ratios for total assets, equity, capital adequacy and credit-deposit ratio in addition to main risk management ratios.

Upon developing internal credit rating system, we provide independent conclusion through the study of repayment capacity of the borrowers, including large and SMEs, whose loan amount exceeds MNT 50 million as well as through thorough study of the loan usage. This system thoroughly estimates three factors, including the main and sub-sector, in which the borrower operates, underlying business prospects (borrower's experience, diversification in business segments and customers, market share and branding) and financial transparency of each borrower. The results of this proprietary credit assessment are used by the Credit Committee, Sub-Credit Committee and branch credit committees, as applicable, in order to make credit decisions and monitor outstanding loans.

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



Lending policies and procedures

We manage our credit risk through thorough monitoring and management of loan and investment portfolio quality. The Credit Committee is responsible for all lending policy related issues to be consistent with the directions given by the Board of Governors and Risk Management Committee. The Credit Committee sets limits on the level of credit risk for borrowers and maximum limit for one borrower or group of related borrowers based on initial and ending data of the balance sheet. The Credit Committee monitors credit risk on continual basis and subject to quarterly or more frequent reviews. We conduct comprehensive exposure reviews of each corporate borrower no less than once a year.

The Credit Committee also has a Sub-committee which is responsible for approving potential credit decisions. The Credit Committee is responsible for approving the terms of credit facilities for amounts over MNT 500 million, while the sub-Credit Committee is responsible for approving the terms of credit facilities for less than MNT 500 million.

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

Lending process

Below is a discussion of our loan approval process:

- Corporate loans: Corporate lending represents the largest segment in our lending activities. Business development manager receives loan request for corporate loan. Prospective corporate customers meet the business development manager upon introducing their request in advance. Following the outcome of such discussions, the business development manager sets the terms for the proposal upon agreeing with the Corporate Banking Department of the Credit Division. If the members of the Credit Division decide that this loan is feasible, it is prepared for discussion at the Credit Committee, Sub-Credit Committee or a branch credit committee, as applicable. Then, a credit officer receives the request and carries out a financial analysis of the proposal in order to have an in-depth knowledge on the customer and the industry in which the client operates. The analysis includes the market position of the potential corporate borrower, reputation, credibility, experience and all other possible studies and analysis. We store the borrower's credit history and information on outstanding loans in other banks. We obtain credit references and other references on the potential corporate borrower from third parties, including government agencies such as Tax authority and the credit bureau within the Bank of Mongolia that collects information on borrowers' credit history. If the loan is ensured by the collateral, we have an independent expert assess its value internally and receive professional legal advice on collateral.
- SME loans: The amount of SME loans is over MNT 500.0 million and these loans are subject to the same lending process as corporate loans. SME loans with an amount from MNT 50 million to MNT 500 million are discussed by the members of the Branches and SME Unit of the Credit Division. If the loan is considered to be feasible, it is presented to Sub-Credit Committee or a branch credit committee, as applicable. The Branches and SME Unit of the Credit Division assess the loan request, carry out analysis under our internal credit rating system, and make a conclusion. Then, it is discussed by the Credit Committee or the branch credit committee, as applicable. If necessary, analysis is carried out on already disbursed loans. All loans with the amount of over MNT 50 million are discussed at respective Credit Committees accompanied with a conclusion on risks issued by the Monitoring Department of the Credit Division.
- Credit review process: The Credit Division carries out independent analysis on loan requests delivered by the Corporate Banking Department or the Branches and SME Department. These requests are recorded under "credit awaiting approval" mode in credit software. The Credit Division principally evaluates the proposal based on a number of factors under our internal procedure, including: (i) sectoral limits established for various industries and products; (ii) single borrower limits and group of related borrowers' limits; (iii) indicative pricing of the proposed loan; (iv) the maturity profile of the loan portfolio; (v) comparison and weighing of the loan portfolio; and (vi) other macroeconomic indicators and estimates as may be appropriate under our internal credit approval guidelines specified in the Credit Division policy. Credit requests are reviewed by experienced credit officers based on the analysis and evaluation of a borrower's creditworthiness. We use available statistical data and external reports to assess the creditworthiness of borrowers. Under the credit approval policy, loan requests must be approved by the Credit Committee, the Sub-Credit Committee or the relevant branch credit committee, as applicable, depending on the amount of the requested facility.

- Retail loans. Our retail loan process is similar to our corporate loan process. Most of our retail customers apply for a loan with a credit officer in one of our branch offices. If the proposed terms of the loan are acceptable to the bank and the required supporting documentation is provided, the credit officer logs the loan application with the Credit Division and presents relevant analysis and conclusions for a review to the branch credit committee. The branch credit committee has the power to approve such loans. If the amount of the loan exceeds the amount that the branch credit committee is allowed to approve under our credit approval policy, the loan application is transferred to the Sub-Credit Committee or the Credit Committee, as appropriate, for a decision on the application.

Loan monitoring

When determining the creditworthiness of the borrowers, we carry out analysis on borrower's condition, collateral, loan, possibility to pay interest and determine the amount of loan to be disbursed and its maturity. The Monitoring Department of the Credit Division monitors the loan portfolio as a whole and carries out a regular monitoring through "watch list" no less than once a month. Within the framework of this monitoring, loan is classified upon considering risk assessment and business sector risks. Loan portfolio risk and risk levels of economic sectors are generally assessed through the monitoring process. Relationship managers engage in this monitoring or review regularly and based on their communication they apply requirements. When the loan is included in the "watch list", relationship managers contact the client and work upon making plan to reduce the risks of delayed or non-paid loan. The department, loan officer and senior loan officer, who are responsible for this specific loan, engage in this operation. The Monitoring Department of the Credit Division develops final conclusions and reports to asses and manage loan portfolio ratios and its balance, involving relevant officers. It is important to take specifically other main factors that may be subject to assessment and determination of the loan quality, risks and quotient.

Loan collection process

Primarily, we entrust responsibility for loan collection to the relationship managers and require that evidence of any collection activity, whether in writing or conducted verbally, be maintained in our records. In the event of late payment, our policies require that customers be contacted for payment within five days of the scheduled due date, and, depending on the outstanding amounts and customer's payment history, relationship managers are encouraged to proactively make such contact in appropriate cases prior to the due date. The manner and frequency of contact are determined by the amount of delinquent principal interest payment, and we direct greater efforts toward larger outstanding balance accounts and those customers with a history of slow payment. The Corporate and Retail Banking Divisions generally contact the clients with overdue loans via the telephone initially and based on the communication results subsequent measures are taken. All verbal and writing communication with the clients is carried out with high professionalism ensuring ethical standards.

Generally, the loan collection process involves the following:

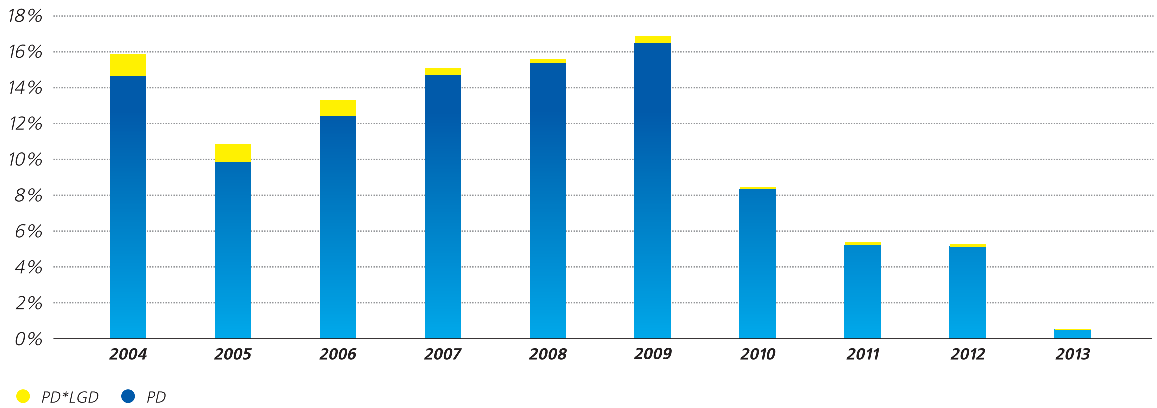
- We send all customers a monthly account statement containing information on loan repayment status, amount to be repaid and overdue balances. Relationship manager regularly reviews the accounts he/she is responsible for and some of the selected accounts are jointly monitored by the Credit Division. Based on the results of the reviews, program on repayment is developed on overdue and bad loans;
- If the clients delay the payment by over 30 days, the loan officer re-evaluates the creditworthiness of the borrower and offers alternative business practices, such as accounts receivable policy, marketing strategy, sales growth strategy, pricing policy and increases in raw material and goods turnover in order to assist the customer to strengthen its prospects for current and future cash flows;
- After all possible remedial efforts to recover outstanding amounts, accounts delinquent more than 90 days are transferred to the Special Assets Department of the Risk Management Division for further appropriate actions;
- Although all possible ways are studied and required actions are taken to have the loans repaid, the loan is not paid,

borrower is identified as unable to make the payment or if any dispute is arisen in this regard, then the case shall be transferred to Special assets department which will take measures to collect the loan in accordance with the law within 30 days.

Credit risk Modeling and Portfolio Quality

We develop and use the model to estimate default (PD), loss given default (LGD) and other parameters of credit risks. This method complies fully with IAS 39 and Credit Risk Model requirements set by Basel Committee and has become the effective instrument to monitor credit risks through determining expected default, credit risk limits which estimate loss amount and other applicable parameters. Non-performing loans include overdue and impaired loans. Impairment of loan is determined in accordance with IAS 32. Per this standard, non-performing or impaired loans are the loans which current balance is greater than the current value of the principal loan and its interest to be paid from future cash flow. This procedure is advantageous as it takes into account not only financial capacity of the borrower but also external factors for loan quality classification.

Credit Risk Measurement Methodology



Industry Analyses and Concentrations

We apply concentration limits to our loan portfolios to manage overall loan portfolio quality. Under our internal policies, aggregate loans to any single sector of the economy are limited at a maximum of 20 percent of the total loan portfolio in order to prevent from loan overconcentration in one business sector or one segment of the economy. In addition, we set other limits, such as a limit on loan exposure to any single borrower, connected group of borrowers, rating and country limits. Our loan concentration reflects the concentrated and less diversified evolving structure of the current economy of Mongolia, however, our management believes that it is possible to mitigate industry concentration risks. Thus we periodically review local industrial sectors in order to identify opportunities to diversify our loan portfolio. As of 31 December 2013, our principal credit risk component was manufacturing sector, which accounted for 13.2 percent of our total gross loan portfolio, while the second principal credit risk component was mining and exploration sector, which accounted for 11.3 percent and the third principal credit risk component was the trade – whole and retail sector, which accounted for 9.7 percent of our total gross loan portfolio.

Loan Classification and Loan Loss Provisioning Policy

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

Loan classification: Loans are monitored on a regular basis, which allows us to identify problems with loans at an early stage. In addition, for loans greater than MNT 1 billion, an in-depth review of each borrower's financial condition is carried out on-site on a quarterly basis or as soon as payment by the borrower is overdue more than 14 calendar days. We assess the status of any collateral at least four times per year. Whenever repayment is delayed by one day, the Credit Division starts working on recovery of the problem.

Loans and off-balance sheet exposure are classified by reference to: (i) the customer's financial performance; (ii) the timelines for repayment of principal loan and its interest; (iii) the quality of collateral; (iv) whether there has been any changes to terms of the loan; (v) the timelines for repayments on other loans; (vi) whether loan is used for designated purposes; (vii) whether other credits to that customer have become impaired; and (viii) any rating of the customer.

The Portfolio Risk Management Department produces a monthly report, which includes the analysis of the credit risks within the loan portfolio. The Credit Division includes detailed warnings on the timelines of debt repayment, classified loans and contingent liabilities into the report. Immediate action is taken by appropriate departments, which have responsibility for supervising and monitoring loan repayment, if any principal or accrued interest repayment problems arise. The Credit Committee informs on any significant deterioration in the quality of assets and contingent liabilities of the entire loan portfolio.

Recognizing IFRS loan loss: Our financial statements are prepared in accordance with IFRS. Calculation of loan loss provisions for the purposes of our IFRS financial statements are carried out on a semi-annual basis, while calculation of monitoring and loan losses based on daily reports. In order to prepare our financial statements in accordance with IFRS, we include all loans when recognizing loan loss provisions.

Liquidity risk

Liquidity risk is the risk when the bank is unable to meet its financial obligations in a timely manner at market price. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments. Liquidity risk arises in the general funding of our financing and investment activities and in the management of positions. This risk includes unexpected increases in the cost of funding the portfolio of assets resulted from maturities and interest difference.

Our liquidity risk management structure is designed to set, monitor and manage guaranteed levels for liquidity that enable to fully perform the above mentioned financial obligations under normal or abnormal conditions. Accordingly, our policies are intended to ensure that we have access to sufficient funds to satisfy customer needs, maturing liabilities and capital requirements of our operations, while maximizing our interest earnings and other income.

The Bank's liquidity is managed by the Treasury Division according to the requirements and forecasts for all of our divisions and branches. The Director of the Treasury Division is consulted on each major credit decision in respect to the impact on our overall liquidity position. The Asset and Liability Committee (ALCO) holds its meeting at least twice a month, where decisions and necessary adjustments are made in addition to liquidity management policy and it also carries out re-reviewing in compliance with the liquidity standards and other policies. The Risk Management Committee sets liquidity risk standards in accordance with regulatory requirements and international best practices, thereby establishing a comprehensive framework for our liquidity risk management.

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

The ALCO's monitoring process is supported by a number of internal and external control systems. In connection with these internal and external control systems, we utilize a variety of tools to evaluate liquidity risk, including (i) interest rate, maturity and foreign currency gap analysis on a monthly frequency basis, (ii) daily monitoring of actual cash flows, and forecasting cash flows and our long-term estimated balance sheet, (iii) monitoring optimal asset and liability structure issued by the Financial Control Division monthly, (iv) liquidity ratios and minimum reserve requirements estimated on a daily basis, v) anticipated liquidity operations for the next month based on analytical reports, capital market projections, and liquidity reports issued by the Treasury and Corporate Divisions and other internal divisions and departments , and (vi) limits on operations, such as liquidity ratios, limits on gap sizes, and monthly lending limits, which are issued by the Risk Management Division.

Maturity analysis represents the basis of an effective management of exposures to structural liquidity risk. Expected cash flows are changed by certain amounts whenever maturities change. Therefore, when analyzing the Bank's assets, funds and off –balance commitments for maturity, the commitments, which have no clear maturity and which probably be paid prior to maturity are classified in terms of quality, and possible maturities are determined. The process is intended to identify liquidity risks caused by deformation of balance structure and determine the amount of additional funds to be used for its recovery. Relevant limits and requirements are adhered in order to maintain the difference of expected inflows and outflows during the maturity difference period and preserve liquidity ratio to highest possible level. One of the effective mechanisms to ensure limits and requirements is to set the ratio for short term capital and funds and manage it effectively. These commonly used ratios are estimated as follows:

- Net loans / Current accounts & deposits;
- (Deposits with The Bank of Mongolia + Cash) / Current accounts & deposits;
- Assets up to one month / Liabilities up to one month;
- Funds from Banks and financial institutions / Current accounts & deposits;
- Deposits with Banks & financial institutions / Current accounts & deposits;
- Liquid assets / (Current accounts & deposits + Funds from Banks & financial institutions);
- Liquid assets / (Current accounts & deposits + Funds from Banks & financial institutions + Contingent liabilities);
- Liquid assets / Total assets;
- Net loans / Total assets;
- Net loans / Current accounts & deposits;
- Net loans / (Current accounts & deposits + Funds from Banks & financial institutions);
- Term deposits / Total liabilities;
- Foreign currency assets / Total assets;
- (Deposits with Banks & financial institutions + Foreign currency deposits) / Foreign currency current accounts & deposits;
- Net foreign currency loans / Total assets;
- Foreign currency liquid assets / Foreign currency current accounts & deposits;
- Wholesale current accounts & deposits / Current accounts & deposits;
- Government current accounts & deposits / Current accounts & deposits; and
- Other concentration analysis ratios

Foreign Currency Liquidity Management

We incur foreign currency risk as a result of having assets, liabilities that are denominated in currencies other than Mongolian Tugrik. Decision is made on what currency to disburse loan in consistent with funds mobilized for each currency. The objective of our foreign currency risk management policy is to minimize the difference in assets and liabilities placed in that certain currency as low as possible. The Bank regularly manages foreign currency risk principally by holding or lending the proceeds of our borrowings in the currency in which they were borrowed.

Diversified Funding Base

In order to prevent the Bank's funds against being too dependent on economic sectors and large and group of customers as well as slower decentralization, concentration risk limits are set. Concentration risks are reduced through composition of most of the funds from optimal collection (as for wholesale and retail customers) of long-term current accounts and deposits and customers.

Liquidity Stress Testing

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

Liquidity Contingency Plans

We develop and implement our contingency plans in connection with the stagnation process of the economy. This is a comprehensive plan aimed at creating the trust in a market that enables to counteract the liquidity crisis without any loss and protecting the interests of the stakeholders, and is based on specific strategies to be observed in the event of crisis and contains early warning indicators. These early warning indicators are updated on specified frequencies and high levels of accuracy, while response strategies are formulated based on the relevant crisis management structure and incorporate internal and external communications strategy, proposed steps to generate additional liquidity and enhanced information disclosure.

Market risk

Market risk is the risk that may arise due to negative effects of risk factors related to market changes such as interest rate, foreign exchange rate and value of equity.

The Bank is exposed to market risk from either trading or non-trading business portfolios and it also concerns the Treasury operations as well.

Within the risk management policy, the Board of Governors sets an overall limit for market risk and sub-limits for sectors and instruments, and the ALCO monitors its implementation. This review is carried out through a review of interest rate and currency exchange rate exposures, and identifies current events and forecasts future developments.

The Director of Treasury Division is responsible for day-to-day management of market risk exposure by ensuring the implementation of policies and procedures set by the Board of Governors and ASOL, as well as observing recognized limitations on composition of products and investment, commercial negotiations and financial instruments in its operations. The Risk Management Division engages in market risk management operations and reports directly to ASOL and the Chief Executive Officer.

Interest rate risk

The main market risk arising from non-trading portfolio of the Bank is the interest rate risk or the Bank's earnings resulted from interest rate changes or negative impacts on equity. The Bank mainly faces interest rate risks due to the following reasons:

- assets and liabilities which may mature or reprice at different times (e.g., if assets reprice faster than liabilities and interest rates are trending downwards, earnings will decline);
- assets and liabilities which may reprice at the same time but by different amounts (e.g., when the general level of interest rates is falling, the Bank reduces rates paid on deposit accounts by an amount that is less than the general decline in market interest rates);

- market interest rate is changing with different amounts for long-term (e.g., the shape of the yield curve may affect new loan yields and funding costs differently)
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (e.g., if long-term mortgage interest rates decline sharply, mortgagees may prepay earlier than anticipated, which could materially reduce income).

The principal objective of our interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure. We manage our interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. These methods and instruments are used to estimate interest rate gap analysis, maturity difference analysis and interest income assumptions. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

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

Value-at-risk

The main risks of trading portfolio arise from foreign currency and financial instruments' interest, market liquidity and price changes. Risks expected from trading portfolio depend mainly on the amount of foreign currency and financial instruments, market liquidity and price changes and the principal risk factors are interest rate, exchange rate, and share prices.

The primary focus of our trading activities is the supply of products and services to our customers at competitive price and activities directed to our customers. In addition, the Bank carries out a variety of trading to gain profit:

- engage in currency exchange to gain profit from the difference in sale and purchase prices using market advantage;
- create positions through the way of gaining profit from market imperfections;
- Own financial instruments to have advantage for future and etc.

All divisions exposed to market risk are required to comply with our trading policy requirements. The main instrument to implement market risk management is the thoroughly determined strict limits and they set main factors of risk management such as dealer's rights. According to the trading policy, any breach thereof must be followed by strict remedial action.

(MNT thousand)	*Delta Normal*	*Monte Carlo*	*Historical Simulation*
31st December	*106,624*	*96,578*	*141,397*
Average Daily	*515,412*	*471,143*	*621,404*
Highest	*2,055,956*	*2,254,768*	*2,709,669*
Lowest	*10,201*	*10,507*	*11,185*

We apply three types of value-at-risk ("VaR") methodology to measure the market risk of our trading and treasury portfolios. VaR technique produces estimates on potential negative changes in the market value of a portfolio. We use measurement periods of one and ten trading days in our VaR analysis and we verify our results by an automated daily program of back-testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with The Bank of Mongolia's prudential limits and results in a confidence level of 99.0 percent. In addition, we also conduct the Bank's stress test by the volume of potential loss received through VaR.

Operational risk management

Operational risk management is relevant to every aspect of the Bank's business and covers direct or indirect loss resulting from internal operations, inadequate system, intentional and unintentional acts of people and external factors. In accordance with international standards, it includes risk of reputation as well as legal risk whereas strategic risks are not included. The objective of the Bank's operational risk management is to maintain the risks at lowest possible level within the Bank's targeted rate of return.

Golomt Bank implements optimal risk management in all business lines, and carries out its operations upon introducing and observing thoroughly developed internal rules, procedures, criteria and limits. We use special risk assessment software and daily risk check sheet, record historical data into Integrated Risk Database, engage in classification, evaluation and studies in accordance with Basel Committee recommendations and other internationally recognized methods, and use them in daily decision making process. A comprehensive system of internal controls and regular monitoring create an environment of continuous improvement in managing operational risk within the Bank.

In addition, we anticipate risks that may cause adverse effects on normal operations of the Bank using a variety of methods, including modern forecasting and statistical techniques, estimation of internal and external factors, scenario analysis, determine and observe key risk indicators and organize preventive actions at high level.

Operational risk management department carries out risk assessment on each unit, operation, product and service frequently, using modern advanced methods. Based on the results of the risk assessment, response measures to improve it further are taken through optimal risk-return solution. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk.

Insurance

Golomt Bank organizes professionally the process to transfer risks to Third party through the international insurance market. In order to protect the Bank against potential risks, Golomt Bank has developed close cooperation with domestic as well as international reinsurers, which are rated AA-, A by Moody's and Fitch, backed by Lloyd's market in London. Along with implementing insurance policies and recommendations developed by local and international regulatory authorities, Golomt Bank uses voluntary insurance protection in its operations.

Information security management

Information risk includes the risk of intentional or unintentional unauthorized use, modification, disclosure, or destruction of information resources which might adversely affect the Bank's ability to preserve our records, maintain business continuity, and preserve the confidentiality and reputation. Along with assessing IT operations risks and issuing conclusion and recommendations, the Operational risk management department engages in distance monitoring with the assistance of regulation of user's rights, procedure on information downloading from data base, network monitoring, user's access and monitoring software on recorded acts. It also cooperates with Information security unit which has daily monitoring function, provides guidance and engages in re-assessment.

Business continuity management

Business continuity management is focused on recovering the operations to normal level within a short period of time when business operations are interrupted due to unforeseeable incidents or disasters, reviving system operations, and taking required measures. In order to ensure business continuity, Golomt Bank complies with all requirements, recommendations and standards set by the Bank of Mongolia and other regulatory authorities. Accordingly, we have developed a backup center, perform regular tests, incorporate required changes into business continuity plan, and focused significantly on improving our ability to minimize the time to recover businesses.

Money Laundering Control

The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering. The Bank continues to strengthen its commitment to combat money laundering and terrorism financing by improving the policy and its monitoring mechanism in compliance with changing legal environment. Therefore, the Bank revised and approved its internal policies and procedures in consistent with revised Law on combating money laundering and terrorism financing of Mongolia and recommendations issued by FATF.

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

The unit of the Bank responsible for combating money laundering and terrorism financing provides the Management with accurate, complete and revised information on international and domestic laws, standards and recommendations and works in cooperation with the management by receiving tasks and assignments.

Moreover, the Bank renewed its core banking system in order to ensure the implementation of standards and requirements set by international and local competent authorities as well as laws and procedures on fighting money-laundering. The Bank is now ready to use the automated system to check customers as well as their transactions against United Nations sanction list.

Golomt Bank has correspondence banking relations with U.S Banks similar to other banks, thus, it provides accurate information with regard to Golomt Bank's operations on combating money laundering and financing terrorism to other foreign banks by fully supporting Patriot Act of U.S. and FATCA, validates it, and provides accurate and immediate responses to queries on transactions made through our Bank, and regularly improved foreign relations and cooperation.

Special asset recovery

Special Asset Recovery Department of the Bank deals with monitoring and recovering loans and overdue receivables, which have repayment problems and are recorded under non-performing loans.

Our determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria, including: sudden changes in transaction volumes in the customer's accounts, violation of Loan contract, applications to change credit terms, and a refusal to cooperate with officers of corresponding banks. As for receivables, the factors such as failure due to responsible employee, contracting company or individuals, employee's resignation, lose of contact with borrowers and customer's refusal for repayment are included.

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

In order to ensure the duties of the Contract, the Special Asset Recovery department works together with customers to suggest management strategies to meet their commitments, such as collecting on accounts receivable, selling tangible and intangible assets and improving marketing effectiveness and operational efficiency. The above measures are taken based on the results of previous customer contacts, the customer's creditworthiness and their amenability to repayment proposals which are acceptable to us.

In appropriate cases, we may adopt a strategy to modify the terms of the loan. Under this strategy, the Special Asset Recovery Department works with a borrower to adjust the terms of the problem loan, including cancelling payment of penalty fees, granting a grace period or reducing monthly payments, with a view to maximizing our recoveries. If changes are to be made to loan terms, they are presented to the Credit Committee, and are discussed by Credit Committee and Sub-committee, depending on the size of the credit.

If the loan is shifted to standard classification from non-performing classification, the Special Asset Recovery Department continues to monitor the loan for another 6-12 months.

If the NPL is not paid voluntarily or through non-judicial way, it is transferred to the Court. The recovery activity is conducted based on Court's decision and if necessary with the involvement of the Law enforcement agency. This activity requires a certain period of time and funds based on law and other legal documents observed in that certain organization. Prior to having the debt paid by the means of judicial procedure, the Bank has the special assessment as well as the actual assessment on collateral and possibility carried out by professional experts to ensure contractual obligations, and seeks advice.

In case a responsible person for the loan is not available or passed away or long period of time passed since the Court decision, non-performing loans will be covered by the provision under Write-Off committee decision, booked in off-balance sheet and registered in Black-list in accordance with the "Asset classification, provisioning and amortization regulation" approved jointly by Finance Minister and President of the Bank of Mongolia.

CORPORATE SOCIAL RESPONSIBILITY

GOLOMT BANK HONORED ITS GRAND DUTY DEDICATED TOWARD BETTERMENT OF THE WHOLE SOCIETY AND COMMUNITY WE SERVE IN AS WELL AS OUR CUSTOMERS AND EMPLOYEES ALONG WITH THE COUNTRY'S ECONOMIC GROWTH AND DEVELOPMENT.

In 2013, Golomt bank honored its grand duty dedicated toward betterment of the whole society and community we serve in as well as our customers and employees along with the country's economic growth and development. Hence, we were selected as the "Best Corporate Social Responsibility Company" at "Entrepreneur-2013" annual award ceremony organized by Mongolian National Chamber of Commerce and Industry.

Corporate Environmental Responsibility

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

- To join the Sustainable Financing Initiative: We have signed "Sustainable Financing Principles Paper" along with Mongolian Banking Association, Bank of Mongolia and other commercial banks. We are highly engaged in supporting this initiative.
- Credit Evaluation: An assessment of the environmental impact constitutes an integral element of our credit evaluation process. We do not support any project which is perceived to be deleterious to the environment. Through our lending policy, we also support businesses, which implement energy-efficient and environmentally friendly operational procedures.
- Financing environmentally friendly business: The Bank is the only institution to extend Two Step Loan Project for SME Development and Environment Protection to its clients among commercial banks supported by Japanese International Cooperation Agency in cooperation with the Ministry of Finance. This year, we announced a contest of Eco-centered loan projects and provided low-interest loan to the winners.
- Promoting efficient and environmentally friendly use of resources: The benefits of online banking include less paperwork, less mail and less fuel driving to branch offices, which all generate a positive impact on the environment. Furthermore, we have introduced Self-Service Banking for the first time in Mongolia, saving paper and fuel costs; thereby, contributing to reduce carbon emission.

- Running environmentally friendly business: We set a target to make our operation more environmental friendly by investing in IT software development to reduce use and cost of paper. We successfully introduced Share point JIRA system into our internal feedback procedure in 2011 and encouraged by the positive changes it generated, we further developed E-Docs system reducing paper based communication drastically. Furthermore, we organized "Green building and Green Office" campaign in our bank where we organized training sessions, introductory sessions, and persuading sessions for our employees regarding the less use of paper as well as water and energy. For instance, "Let's go for green trip with Green Panda" campaign was great success.

Supporting Education

The main beneficiaries of our educational projects are young generations who can build prosperous and empowered future for our country. Since our early years, we consistently supported educational development and have played a leading role by initiating and funding different projects dedicated toward children of Mongolia.

- In 2013, the Bank sponsored and organized the 12th Student's Scientific Conference for students from all Mongolia's leading universities providing a platform for creative ideas to take shape.
- The Bank implemented our longstanding University Students' Scholarship Programme for the 11th consecutive year to support their outstanding academic achievement. We have invested more than MNT 700 million in total of 1100 students over the years.
- The bank also organized "Financial Education Day" educational event at over 25 Mongolian leading universities' 6000 students where they were given information and knowledge about banking services, financial management, payment cards, internet banking and internet transactions.

Supporting Culture and Sports

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

- We have sponsored the State Academic Theatre of Opera and Ballet for the 5th year in order to contribute to development of the classical arts and increase the knowledge and appreciation of arts and culture among citizens and residents of Mongolia.
- As a key sponsor and sole partner of the renowned Mongolian "Morin Khuur" Fiddle Ensemble, we're contributing our part for the artistic development of Mongolian Traditional Culture and Art.
- The bank is actively engaged in supporting Mongolian hockey team 'Bilegtkhuu' for their successful participation in National Hockey Championship Competition after signing one year sponsorship contract with the team in 2013.
- The bank has "Sport Club", highly active and consistently operational club, which organizes and hosts number of sporting matches and competition during off work days for employees. As a result, our employees are showing great results with high success rate at interbank competitions.

Supporting Housing and Mortgage Industry

The bank is deeply committed to make the lives of each and every Mongolian household's lives better; hence, more people are given opportunity to live and raise their families in better environment. With their newly owned homes, not only more people are saving; thus, increasing their credit scores but also positively contributing at wider scope in their future planning.

- Golomt bank accounts for 30 percent market share of the entire mortgage industry and we issued MNT 691.9 billion loans as mortgage loan.
- 16000 households, approximately 70000 people newly owned apartments. 65 percent of these people are young generation who just started working at their chosen sectors to contribute and expedite the countries growth and development.
- Through banks financings, 28 apartment complexes has been built which provided over 10000 jobs.

Supporting Government Initiatives

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

- Through our membership of the World Economic Forum, Institute of International Finance, Emerging Markets Advisory Council, we actively promote the interests of Mongolia in supporting our economic expansion and development.
- We supported new initiatives of economic growth, sponsoring Mongolia Investment Summit, Coal Mongolia 2013 Conference, Mongolia Trade and Commodity Finance conference and Mongolian Corporate Governance Forum.
- We made our contribution toward defining region's banking and finance sectors growth and development by sponsoring Asian Banking Association's 30th Summit.
- The Bank sponsored the 4th "Mongolia Economic Forum" organized by the Government of Mongolia.
- With our branch offices network, the Bank actively supports the Government Programme to distribute student grants and child benefit.

CORRESPONDENT BANKS

No.	BANK NAME	Location	SWIFT and Telex code	Currency	Nostro accounts
1.	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	MELBOURNE, AUSTRALIA	ANZBAU3M	AUD	920660AUD00001
2.	CANADIAN IMPERIAL BANK OF COMMERCE	TORONTO, CANADA	CIBCCATT	CAD	1818910
3.	THE AGRICULTURAL BANK OF CHINA	BEIJING, CHINA	ABOCCNBJ	USD	8211000908
4.	BANK OF CHINA	ERLIAN, CHINA	BKCHCNBJ880	USD CNY	155605293946 154005293944
5.	BAOSHANG BANK	BAOTOU, CHINA	BTCBCNBJ Bank code: 313192000021	CNY USD	002105599800010 002105599800020
6.	CHINA CONSTRUCTION BANK CORPORATION	NEIMENGU, CHINA	PCBCCNBJNME	USD CNY	NRA15014150500220100181 15001658408052502177
7.	THE AGRICULTURAL BANK OF CHINA	HUHEHAOTE, CHINA	ABOCCNBJ050	USD CNY	05999914040000049 05999901040000053
8.	INDUSTRIAL AND COMMERCIAL BANK OF CHINA		ICBKCNBJNMA	USD CNY	0610040629200061234 0610040609200054391
9.	CHINA CITIC BANK		CIBKCNBJ010 Bank Code: 302191027101	USD CNY	7271111486000000181 7271110186000000155
10.	COMMERZBANK AG, FF/AM MAIN	FRANKFURT, GERMANY	COBADEFF 041/415 2530 CBD	USD EUR CHF	400 878 506 500 400 878 506 501 400 878 506 500
11.	DEUTSCHE BANK AG		DEUTDEFF	EUR	100-9517673-0000
12.	BANK OF CHINA (HONG KONG) LIMITED	HONG KONG	BKCHHKHH	HKD CNY USD	012-875-60115674 01287560118495 01287560121220
13.	MIZUHO CORPORATE BANK LTD	TOKYO, JAPAN	MHCBJPJT	JPY	6740010
14.	SUMITOMO MITSUI BANKING CORPORATION		SMBCJPJT	USD JPY	3623 4374
15.	BANK OF TOKYO MITSUBISHI UFJ, Ltd.		BOTKJPJT	USD JPY	653-0455601 653-0432881
16.	KAZKOMMERTSBANK	ALMATY, KAZAKHSTAN	KZKOKZKX	USD	KZ769260001000694001
17.	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	USD KRW	963-THR-313-01-2 0963FRW001000054
18.	SHINHAN BANK		SHBKKRSE	USD KRW	0102245USD01 0102245KRW01
19.	KOOKMIN BANK		CZNBKRSE	USD KRW	819-8-USD-0-15 819-8-KRW-0-17
20.	LAND BANK OF TAIWAN	TAIWAN, CHINA	LBOTTWTP	USD	088-185-00002
21.	SBERBANK, RUSSIA BAIKALSKY HEAD OFFICE	IRKUTSK, RUSSIA	SABRRU66 231231 SBANK.RU	USD RUB	30111840518000000003 30111810618000000001
22.	JSC BANK FOR FOREIGN TRADE	MOSCOW, RUSSIA	VTBRRUMM	RUB USD	30111810655550000126 30111840155550000104
23.	RUSSIAN AGRICULTURAL BANK		RUAGRUMM	USD RUB	30111840300000000006 30111810200000000013
24.	SBERBANK, RUSSIA MOSCOW HEAD OFFICE		SABR RUM 012	USD RUB	30111840100000000840 30111810800000000840
25.	UNITED OVERSEAS BANK LIMITED	SINGAPORE	UOVBSGSG	SGD	301-399-069-5
26.	BARCLAYS BANK PLC	LONDON, UK	BARCGB22 Sort Code: 20-32-53	GBP	43379779 IBAN: GB33BARC20325343379779
27.	STANDARD CHARTERED BANK	NEW YORK , USA	SCBLUS33	USD	3582-026934-001
28.	DEUTSCHE BANK TRUST COMPANY AMERICAS		BKTRUS33	USD	04453138

As of December 31, 2013

BRANCH NETWORK

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Tel: +(976) 70111646
Fax: +(976-11) 313155, 312307
Email: mail@golomtbank.com
Web: http://www.golomtbank.com

REPRESENTATIVE OFFICES

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

OFFICES IN ULAANBAATAR

Name	Address	Contacts
Main Business Center	*Trade Street 6/2, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-310759 Fax: +(976-11)-326231*
Loan Business Center	*Burkhan Khaldun Building, Khoroo #2, Peace Avenue, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-330072 Fax: +(976-11)-330621*
Sansar Business Center	*3rd office of Golomt Bank, Khoroo #15, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976)-70157091 Fax: +(976)-70003302*
100 Ail Branch	*"And International", B corps, Khoroo #7, Khoroolol #11, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-350542 Fax: +(976-11)-350544*
Ard Branch	*On and On Building, Baga Toiruu Street, Khoroo #1, Chingeltei District, Ulaanbaatar*	*Tel: +(976-11)-320712 Fax: +(976-11)-330436*
Solongo Branch	*Solongo Service Center, Seoul Street, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-320841 Fax: +(976-11)-318479*
Sapporo Branch	*Barmon Building, Khoroolol #1, Songinokhairkhan District, Ulaanbaatar*	*Tel: +(976-11)-681267 Fax: +(976-11)-680367*
Moscow Branch	*Bodi International LLC Building, Khoroolol #4, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-305419 Fax: +(976-11)-368602*
120'000 Branch	*120 Myangat Service Center, Khoroo #1, Khan-Uul District, Ulaanbaatar*	*Tel: +(976)-70130080*
Monnis Branch	*Monnis Tower, Khoroo#1, Sunkhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-321291 Fax: +(976-11)-321273*
Bayanzukh Branch	*Bo-Bo Trade Center, Khoroo #15, Bayanzurkh District, Ulaanbaatar*	*Tel: +(976-11)-458250 Fax: +(976-11)-462892*
Golomt City Branch	*Building #1, Golomt City Complex, Constitution Street, Khoroo #5, Sukhbaatar District, Ulaanbaatar*	*Tel: +(976-11)-322943 Fax: +(976-11)-322943*
Airport Settlement Center	*"Chinggis Khaan" International Airport, Khan-Uul District, Ulaanbaatar*	*Tel: +(976-11)-283205 Fax: +(976-11)-283205*
Customs Settlement Center	*Customs Office, Bayangol District, Ulaanbaatar*	*Tel: +(976-11)-242945 Fax: +(976-11)-242945*

Baganuur Settlement Center	Kherlen Trade Center Building, Baganuur District, Ulaanbaatar	Tel: +(976)-70212332 Fax: +(976-01-21)-20818
Tsambagarav Settlement Center	Tsambagarav Trade Center, Khoroolol #1, Songino-Khairkhan District, Ulaanbaatar	Tel: +(976-11)-680762 Fax: +(976-11)-680763
Tsetsee Gun Settlement Center	Tsetsee Gun University, Khoroo #4, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-316395 Fax: +(976-11)-316395
13th Khoroolol Settlement center	MGL Building, Manlaibaatar Damdinsuren Street, Khoroo #25, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-457018
Tamir Settlement Center	"Khanna-Impex" company building, Ard Ayush Street, Khoroolol #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-304959 Fax: +(976-11)-304959
Narantuul Settlement Center	Administration Building, Narantuul International Trade Center, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-457018
Ikh Delguur Settlement Center	Zan International Building, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976)-70111351
Nomin Settlement Center	State Department Store, Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-319977 Fax: +(976-11)-314242
Central Tower Settlement Center	Central Tower, Great Chinggis Khaan's Square, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-326474 Fax: +(976-11)-326494
32 Toirog Settlement Center	Sansar-32 Trade Center, 32-r toirog, Khoroo #12, Sunkhbaatar District, Ulaanbaatar	Tel: +(976)-77443232 Fax: +(976)-77443131
Songinokhairkhan Settlement Center	Javkhlant Building, Khoroo #19, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-636205 Fax: +(976-11)-636217
IBMUT Settlement Center	National Registration Office, Police street, Khoroo #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350267
SHUTIS Settlement Center	Central Campus of Mongolian University of Science and Technology, Khoroo #8, Baga-toiruu, Zaluuchuud avenue, Sukhbaatar District, Ulaanbaatar	Tel: +(976)-70111530
Officer's Palace Settlement Center	Khorgo town building 2-3, Dardanbaatar's street, Khoroo #16, Bayanzurh District, Ulaanbaatar	Tel: +(976)-70022002
MaxMall Settlement Center	MaxMall Trade Center, Peace Avenue, Bayangol District, Ulaanbaatar	Tel: +(976)-70111227
Urgoo Settlement Center	Hotu Building, Khoroolol #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-368276
Bukhiin Urgoo Settlement Center	'Mungun guur' NBO Building, Khoroolol #12, Khoroo#3, Bayanzurkh District, Ulaanbaatar	Tel: +(976)-70129701
Variete Settlement Center	Gazar Holding Co,Ltd Building , Khoroo #4, Bayangol District, Ulaanbaatar	Tel: +(976)-70129701
10th Khoroolol Settlement Center	Old Czech Building , Khoroo #5, Khoroolol #10, Bayangol District, Ulaanbaatar	Tel: +(976-11)-682108
Tengis Settlement Center	Victory center, Sambuu's street, Khoroo #5, Chingeltei District, Ulaanbaatar	Tel: +(976)-70120522 Fax: +(976)-70120522
Da-Khuree Settlement Center	Trade center #3, Building of 'Da khuree'' Co,Ltd, Shar had street, Khoroo #17, Bayanzurkh District, Ulaanbaatar	Tel: +(976)-70151533
Japan Town Settlement Center	ICTower, Japan Town, Mahatma Gandhi street, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976)-70129703
Zaisan Settlement Center	Bileg #2 Building, Zaisan street, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976)-70110301
Naiman sharga Settlement Center	2nd floor, building of Vizard Gobi Co.,Ltd, Khoroo #2, Chingeltei district, Ulaanbaatar	Tel: +(976)-70115884
Blue sky Settlement Center	1st floor, Building of Blue sky tower, Khoroo #1, Sukhbaatar district	Tel: +(976)-70141530
Zaisan Settlement Center	1st floor, Zaisan Square, Khoroo #11, Khan-Uul district, Ulaanbaatar	Tel +(976)-70111646 ext: 4600
Embassy Settlement Center	Embassy Residence-202, Olympic street, Khoroo #1, Sukhbaatar district, Ulaanbaatar	Tel +(976)-70111646 ext: 3012
Premier Banking Unit	Bodi Tower, Great Chinggis Khaan's Square #5, Ulaanbaatar	Tel: +(976)-70111646 ext: 1104 Fax: +(976-11)-326840

OFFICES IN AIMAGS

Name	Address	Contacts
Orkhon Branch	Amar Square, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70355100 Fax: +(976)-70355100
Orkhon-Pyramid Settlement center	Tod Jargal Company Building Sogoot Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70353789 Fax: +(976)-70353789
Orkhon-Loan Center	Orkhon-Chandmani Building, Uurkhaichin Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70357058
Darkhan Branch	Golomt Bank Office, Bag #13, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70373928 Fax: +(976)-70377136
Darkhan-Loan Center	Mandakh Bayasakh Building, Bag #8, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70375098 Fax: +(976)-70375098
Khovd Branch	The Bank of Mongolia Building, Tsambagarav bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432115 Fax: +(976)-70432195
Khovd-Bulgan Settlement Center	Burenkhairkhan Bag, Bulgan Soum, Khovd Aimag	Tel: +(976)-70432178
Khovd-Bayanburd Settlement Center	Bayanburd center, Jargalant bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432175 Fax: +(976)-70432175
Bayan-Ulgii Branch	Golomt Bank Office, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70442012
Tirlik Settlement Center	Armon Store, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70422008
Umnugobi Branch	Golomt Bank Office, Bag #3, Dalanzadgad City, Umnu-gobi Aimag	Tel: +(976)-70533990 Fax: +(976)-70533991
Oyu Tolgoi Settlement Center	"Oyu tolgoi" Camp, Khanbogd Soum, Umnugovi Aimag	Tel: +(976)-70111646 ext: 4440
Tsogttsetsii Settlement Center	#1-7, Yamaan Khuren Bag, Tsogttsetsii Soum, Umnu-Gobi Aimag	Tel: +(976)-70111646 ext: 4260
Khanbogd Settlement Center	Goyot 1-7 building, Khanbogd Soum, Umnu-Gobi Aimag	Tel: +(976)-70535148 Fax: +(976)-70535148
Gurvan Tes Settlement Center	Khurd Supermarket, Bag #4, Gurvan Tes Soum, Umnu-Gobi Aimag	Tel: +(976)-70536466
Dornod Branch	Dornod Business center, Bag #7, Kherlen Soum, Dornod Aimag	Tel: +(976-01-582)-22703 Fax: +(976-01-582)-22702
Dornod-Kherlen Settlement Center	#24 Building, Bag #6, Kherlen Soum, Dornod Aimag	Tel: +(976)-70582704
Dornogobi Branch	Vanjildorj's Building, Bag #1, Sainshand Soum, Dornogobi Aimag	Tel: +(976)-70523177
Arshand Settlement Center	"Gan zam" Building, Bag #4, Sainshand Soum, Dornogovi Aimag	Tel: +(976)-0252242792
Zamiin-Uud Settlement Center	Zamiin Uud Railway Station, Bag #1, Zamiin-Uud Soum, Dornogobi Aimag	Tel: +(976-025-245)-43773 Fax: +(976-025-245)-43773
Sukhbaatar Settlement Center	Monos Center, Bag #7, Baruun-Urt Soum, Sukhbaatar Aimag	Tel: +(976)-70512006
Khuvsgul Branch	"Damdinsuren" Building, Bag #8, Murun Soum, Khuvsgul Aimag	Tel: +(976)-70388474 Fax: +(976)-70388474
Uvurkhangai Settlement Center	Oyu center, Bag #5, Gendeng District, Arvaikheer Soum, Uvurkhangai Aimag	Tel: +(976)-70322525
Selenge Settlement Center	Bayankhan Trade Center, Sukhbaatar Soum, Sukhbaatar Aimag	Tel: +(976)-70362318 Fax: +(976)-70362318
Bayankhongor Settlement Center	"Bayankhongor" department store, Bayankhongor Soum, Bayankhongor Aimag	Tel: +(976)-70444511 Fax: +(976)-70444522
Uvs Settlement Center	1st floor, of Ulaan sarnai Ltd Building, Bag #3, Ulaangom soum, Uvs Aimag	Tel: +(976)-70454566

SELF SERVICE BANKING

Name	Address
Self service banking #1	Moscow branch of Golomt bank, Khoroolol #4, Khoroo #14, Bayangol district
Self service banking #2	Building of Art center, Khoroo #1, Sukhbaatar district
Self service banking #3	Solongo branch of Golomt bank, Seoul street, Sukhbaatar district
Self service banking#4	State Department Store, Chingeltei district
Self service banking#5	Main Business Center of Golomt bank, Chingeltei District
Self service banking#6	Ikh Delguur Branch of Golomt bank, Sukhbaatar District
Self service banking#7	Loan Business Center of Golomt bank, Chingeltei District
Self service banking#8	Tedy Service center, Chingeltei District
Self service banking#9	Altjin bumbugur trade center, Chingeltei District
Self service banking#10	Viva city, Khan-Uul district
Self service banking#11	Ard Branch of Golomt Bank, Chingeltei District
Self service banking#12	Tsambagarav Trade Center, Songinokhairkhan District
Self service banking#13	Central Tower, Sukhbaatar District

GOLOMT BANK

Committed to and Investing in Excellence

INDEPENDENT AUDITOR'S REPORT

GOLOMT BANK LLC and
ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

GOLOMT BANK LLC AND ITS SUBSIDIARY
Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995.	
	Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011.	
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005.	
	The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.	
	The Subsidiary holds the State Registration Certificate No. 9011287134 with registration No.5481589 newly granted to the Subsidiary by the State Registration Office of Mongolia on 02 November 2011.	
	The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 02 November 2011 issued by the Financial Regulatory Commission of Mongolia.	
Board of Governors	Ch. Munkhtsetseg	Chairman (assigned on 19 Dec 2013)
	Z. Temuun	Member (assigned on 19 Dec 2013)
	J. Unenbat	Independent Member
	Urs E. Schwarzenbach	Member (assigned on 19 Dec 2013)
	D. Munkhtur	Member (assigned on 19 Dec 2013)
Executive Officers	G. Ganbold	Chief Executive Officer
	D.Munkhtur	EVP, Chief Operating Officer
	L. Bolormaa	EVP, Chief Investment Officer
	M.Chimegmunkh	VP, Director of Financial Management Division
	L.Oyun-Erdene	VP, Director of Corporate Banking Division
	B.Enkhtuya	VP, Director of Retail Banking Division
	M.Chingun	VP, Director of Risk Management Division
	B.Zagal	VP, Director Investment Banking Division
	R.Batsuren	Director of Internal Audit Division
	N.Tserendavaa	Director of Information Technology Division
	B.Munkhbaatar	Director of Treasury Division
	T. Nyamsuren	Director of Credit Division
	Z.Khaidar	Director of E-banking Division
	N.Ochirkhuyag	Director of Marketing Department

Registered office	Golomt Bank Head Office of Golomt bank, Great Chinggis Khaan's Square 5, P.O.Box 22, Ulaanbaatar 15160, Mongolia
Auditors	BDO Audit LLC 10th Floor, AB Centre Building University Street 32/1, 6th Khoroo, 11th Sub-district, Sukhbaatar District, Ulaanbaatar, Mongolia

GOLOMT BANK GROUP

Statement of Management's Responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2013

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of the Directors of Golomt Bank LLC of Mongolia (the "Bank") and its subsidiary (together the "Group") and those of the independent auditor in relation to the Group's consolidated financial statements for the year ended 31 December 2013.

The Directors of the Group are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

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

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

On behalf of the Group's management the financial statements for the year ended 31 December 2013 were authorised for issue on 28 March, 2014 by:

CH.MUNKHTSETSEG	**G. GANBOLD**	**M. CHIMEGMUNKH**
Chairwoman, the Board of Governors	Chief Executive Officer	Vice President, Director of Financial Management Division
Golomt Bank LLC	Golomt Bank LLC	Golomt Bank LLC

МОНГОЛ УЛС
GOLOMT BANK

Date: 2014 .03. 28

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GOLOMT BANK LLC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golomt Bank LLC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements

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

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

We draw attention to Note 56, Contingency, to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by Stanhope Investments. Our opinion is not modified in respect of this matter.

Use of this report

This report is made solely to the shareholders of the Group, as a body, in Article 94 of Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

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

Date: 2014 . 03 . 28

Consolidated Statement of Financial Position
as of 31 December 2013

	Note	Audited–(Group)		Audited–(Bank)	
		at 31.12.2013	at 31.12.2012	at 31.12.2013	at 31.12.2012
		MNT'000	MNT'000	MNT'000	MNT'000
ASSETS					
Cash and cash equivalents	**7**	310,932,806	186,730,836	310,932,590	186,730,836
Mandatory cash balances with the Bank of Mongolia	**8**	259,809,543	239,329,820	259,809,543	239,329,820
Financial assets at fair value through profit or loss	**9**	184,554	520,464	184,554	520,464
Due from other banks	**10**	159,657,425	214,816,931	159,657,425	214,816,931
Financial assets available for sale	**11**	3,194,738	1,778,566	3,194,738	1,778,566
Financial assets held to maturity	**12**	731,014,385	398,111,870	731,014,385	398,111,870
Interests in subsidiary	**13**	-	-	200,000	200,000
Derivative financial instruments	**14**	2,550,950	3,220	2,550,950	3,220
Loans and advances to customers-net	**15**	2,199,227,860	1,427,851,635	2,199,227,860	1,427,851,635
Property, plant and equipment-net	**16**	52,670,047	36,366,251	52,648,556	36,337,050
Intangible assets-net	**17**	4,638,352	802,840	4,637,302	800,744
Investment properties-net	**18**	1,209,050	689,892	1,209,050	689,892
Foreclosed properties-net	**19**	11,887,806	5,377,344	11,887,806	5,377,344
Other assets	**20**	12,662,284	11,110,304	12,651,699	11,097,703
Deferred tax assets	**21**	-	3,298,482	-	3,298,482
TOTAL ASSETS		**3,749,639,799**	**2,526,788,456**	**3,749,806,458**	**2,526,944,558**
LIABILITIES AND EQUITY					
Liabilities					
Due to other banks	**22**	26,462,940	46,989,030	26,462,940	46,989,030
Customer accounts	**23**	2,161,434,493	2,056,677,247	2,161,778,828	2,056,727,989
Other borrowed funds	**24**	1,032,319,221	112,840,408	1,032,319,221	112,840,408
REPO arrangement	**25**	167,154,900	-	167,154,900	-
Subordinated loans	**26**	58,261,173	34,691,374	58,261,173	34,691,374
Derivative financial instruments	**27**	962,305	1,172,027	962,305	1,172,027
Contingent payables	**28**	2,578,818	2,215,362	2,578,818	2,215,362
Other liabilities	**29**	19,678,735	80,739,098	19,621,467	80,739,098
Deferred revenue	**30**	6,628,765	4,509,880	6,628,765	4,509,880
Deferred tax liability	**21**	1,499,173	-	1,499,173	-
Tax payable	**31**	714,402	361,213	691,907	361,167
Total liabilities		**3 477 694 925**	**2 340 195 639**	**3 477 959 497**	**2 340 246 335**
Equity					
Preferred shares	**32**	16,388,100	-	16,388,100	-
Share capital	**33**	25,907,593	25,907,593	25,907,593	25,907,593
Share premium	**33**	42,322,298	42,322,298	42,322,298	42,322,298
Other components of equity	**34**	13,838,281	1,934,247	13,838,281	1,934,247
Retained earnings	**35**	173,488,603	116,428,679	173,390,689	116,534,085
Total equity		**271,944,874**	**186,592,816**	**271,846,960**	**186,698,222**
Total liabilities and equity		**3,749,639,799**	**2,526,788,456**	**3,749,806,458**	**2,526,944,558**

GOLOMT BANK GROUP

Consolidated Statement of Profit or Loss and Comprehensive Income for the year ended 31 December 2013

	Notes	Audited–(Group)		Audited–(Bank)	
		2013	2012	2013	2012
		MNT'000	MNT'000	MNT'000	MNT'000
Interest income	36	290,946,169	200,245,015	290,945,319	200,245,015
Interest expense	37	(184,695,271)	(143,124,972)	(184,700,730)	(143,127,131)
Net interest income		**106,250,897**	**57,120,043**	**106,244,588**	**57,117,884**
Provision for impairment of loans to customers	38	(27,342,769)	(8,605,761)	(27,342,769)	(8,605,761)
Net interest income after provision for impairment of loans to customers		**78,908,128**	**48,514,282**	**78,901,819**	**48,512,123**
Gains less losses arising from financial assets at fair value	39	2,550,950	4,484	2,550,950	4,484
Gains less losses arising from financial assets available for sale	39	(511,739)	(187,378)	(511,739)	(187,378)
Changes in fair value of embedded derivative	39	209,722	709,744	209,722	709,744
Gains less losses from dealing in foreign currency and precious metals	40	578,245	19,293,411	578,245	19,293,411
Gains less losses from revaluation of foreign currency and precious metals	40	37,586,759	(2,078,050)	37,586,759	(2,078,050)
Dividends received	40	4,459	6,776	4,459	6,776
Other operating income	40	353,300	189,931	353,243	189,969
Fee and commission income	41	25,737,817	19,980,330	25,358,165	19,969,184
Fee and commission expense	42	(5,442,569)	(4,937,631)	(5,350,053)	(4,935,586)
Impairment of financial assets available for sale	43	(1,005,420)	(1,040,666)	(1,005,420)	(1,040,666)
Provision for impairment of other assets, credit and non-credit related commitments	44	(597,567)	(2,184,286)	(597,567)	(2,184,286)
Operating income		**138,372,086**	**78,270,947**	**138,078,585**	**78,259,725**
Operating expenses	45	(67,183,606)	(45,536,016)	(67,116,015)	(45,418,952)
Profit before taxation		**71,188,480**	**32,734,931**	**70,962,569**	**32,840,773**
Income tax expense	46	(14,128,557)	(6,694,629)	(14,105,966)	(6,694,413)
Net profit		**57,059,924**	**26,040,302**	**56,856,604**	**26,146,360**
Other comprehensive income					
Other comprehensive income/(expense)	47	11,433,440	(200,703)	11,433,440	(200,703)
Net other comprehensive income		**68,493,364**	**25,839,599**	**68,290,044**	**25,945,657**
Basic earnings per share (MNT):	48	**2,284**	**1,091**	**2,276**	**1,095**
Diluted earnings per share (MNT):	48	**1,833**	**904**	**1,827**	**908**

Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

	Prefered shares MNT'000	Share capital MNT'000	Share premium MNT'000	Regulatory reserve MNT'000	Share-based payment reserve MNT'000	Available for sale reserve MNT'000	Financial foreclosed asset reserve MNT'000	Revaluation reserve MNT'000	Retained earnings MNT'000	Total equity MNT'000
At 01 January 2012	**–**	**24,591,543**	**22,344,874**	**3,980,112**	**1,500,000**	**262,407**	**–**	**–**	**86,408,264**	**139,087,200**
Share issue	-	1,316,050	19,977,424	-	-	-	-	-	-	21,293,474
Profit for the year	-	-	-	-	-	-	-	-	26,040,302	26,040,302
Share-based payments	-	-	-	-	372,543	-	-	-	-	372,543
Transfer to regulatory reserve	-	-	-	(3,980,112)	-	-	-	-	3,980,112	-
Comprehensive income/(expense) for the year 2012	-	-	-	-	-	(59,194)	(141,509)	-	-	(200,703)
At 31 December 2012	**–**	**25,907,593**	**42,322,298**	**–**	**1,872,543**	**203,213**	**(141,509)**	**–**	**116,428,678**	**186,592,816**
Issue of preferred shares	16,388,100	-	-	-	-	-	-	-		16,388,100
Revaluation surplus	-	-	-	-	-	-	-	-		-
Profit for the year	-	-	-	-	-	-	-	-	57,059,924	57,059,924
Share-based payments	-	-	-	-	470,594	-	-	-		470,594
Comprehensive income/(expense) for the year 2013	-	-	-	-	-	(36,255)	3,257,517	8,212,178		11,433,440
At 31 December 2013	**16,388,100**	**25,907,593**	**42,322,298**	**–**	**2,343,137**	**166,959**	**3,116,008**	**8,212,178**	**173,488,602**	**271,944,874**

The notes set out on pages 13 to 115 are an integral part of these consolidated financial statements.

GOLOMT BANK GROUP

Consolidated Statement of Cash Flows
for the year ended 31 December 2013

	Audited–(Group) 2013 MNT'000	Audited–(Group) 2012 MNT'000	Audited–(Bank) 2013 MNT'000	Audited–(Bank) 2012 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**71,188,480**	**32,734,931**	**70,962,569**	**32,840,773**
Adjustments for:				
Accredited interest expenses	-	-	-	-
Changes in fair value of embedded derivatives	-	-	-	-
Changes in fair value of held-for-trading financial investment	511,737	106,865	511,737	106,865
Unrealised loss/(gain) in currency forward contact	(2,547,730)	-	(2,547,730)	-
Gain on disposal of property, plant and equipment	-	15,103	-	15,103
Unrealised foreign exchange (gain)/loss	(37,880,352)	2,078,050	(37,586,759)	2,078,050
Revaluation reseve	8,212,178		8,212,178	
Credit loss for loans and advances to customers	22,557,847	3,478,388	22,557,847	3,478,388
Credit loss for other assets	13,740	60,299	13,740	60,299
Impairment loss on available-for-sale investment	1,005,420	(1,398,558)	1,005,420	(1,398,558)
Depreciation of property, plant and equipment	2,725,749	3,910,318	2,716,046	3,903,885
Amortisation of intangible assets	831,643	563,622	831,643	562,309
Property, plant and equipment written off	709,939	-	709,939	
Provision for loan loss	-	2,123,987	-	2,123,987
Impairment loss on foreclosed properties	3,257,517	110,063	3,257,517	110,063
Share-based option transaction expense	470,594	372,542	470,594	372,542
Operating profit before changes in operating assets and operating liabilities	**71,056,763**	**44,155,610**	**71,114,741**	**44,253,706**
Changes in operating assets:-				
Statutory deposits with Bank of Mongolia	(20,479,723)	(44,778,000)	(20,479,723)	(44,778,000)
Loans and advances to customers	(749,561,187)	(184,216,635)	(749,561,187)	(184,216,635)
Other assets	(1,565,863)	(18,734,745)	(1,567,735)	(18,722,343)
Changes in operating liabilities	-	-		
Due to banks	146,628,810	37,492,777	146,628,810	37,492,777
Due to customers	105,050,840	217,411,640	105,050,840	217,411,640
Other liabilities	(25,963,205)	55,647,146	(26,020,617)	55,650,410
Cash (used in)/generated from operations	**(474,833,565)**	**106,977,793**	**(474,834,871)**	**107,091,555**
Income tax paid	(8,977,714)	(9,932,700)	(8,977,571)	(9,932,455)
Net cash flows (used in)/generated from operating activities	**(483,811,279)**	**97,045,093**	**(483,812,442)**	**97,159,100**

Consolidated Statement of Cash Flows
for the year ended 31 December 2013

	Audited-(Group) 2013 MNT'000	Audited-(Group) 2012 MNT'000	Audited-(Bank) 2013 MNT'000	Audited-(Bank) 2012 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in a subsidiary	-	-	-	(100,000)
Purchase of financial investments	(512,931,674)	(163,008,617)	(512,931,674)	(163,008,617)
Proceeds from disposal and maturity of financial investments	479,090,871	133,758,342	479,090,871	133,758,341
Proceeds from disposal of property, plant and equipment	1,732,627	742,870	1,732,627	742,870
Purchase of property, plant and equipment	(28,500,685)	(10,419,909)	(28,499,740)	(10,384,275)
Purchase of repurchase and reverse repurchase agreements	-	(501,520,605)	-	(501,520,605)
Proceeds from maturity of repurchase and reverse agreements	-	526,500,000	-	526,500,000
Purchase of intangible assets	(4,668,201)	(720,472)	(4,668,201)	(719,364)
Net cash flows used in investing activities	**(65,277,062)**	**(14,668,391)**	**(65,276,117)**	**(14,731,650)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	16,388,100	21,293,474	16,388,100	21,293,474
Drawdown of borrowed funds	948,885,898	77,361,713	948,885,898	77,361,713
Repayment of borrowed funds	(45,447,806)	(27,908,508)	(45,447,806)	(27,908,508)
Net cash flows generated from/(used in) financing activities	**919,826,192**	**70,746,679**	**919,826,192**	**70,746,679**
Net (decrease)/increase in cash and cash equivalents	**370,737,851**	**153,123,381**	**370,737,633**	**153,174,129**
Cash and cash equivalents brought forward	648,950,496	495,877,858	648,950,496	495,776,367
Cash and cash equivalents carried forward (Note 54)	1,019,688,346	649,001,238	1,019,688,130	648,950,496

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

1. REPORTING ENTITY

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

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

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

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

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

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

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

Shareholder	**2013 Ownership (%)**	**2012 Ownership (%)**
Bodi International Co.,Ltd	84.66%	84.66%
Swiss-Mo Investment A.G	10.16%	10.16%
Trafigura Beheer B.V	5.02%	5.02%
Shareholders owning less than 5% of the share capital	0.16%	0.16%
Total	**100%**	**100%**

The Group and the Bank is controlled by Bodi International LLC of Mongolia (holding 84.66% as at 31 December 2013), Swiss-Mo Investment A.G (holding 10.16% as at 31 December 2013) and Trafigura Beheer B.V (2012: the Bank was actually controlled by Bodi International LLC of Mongolia with 89.19% interest, Swiss-Mo Investment A.G with 10.71% interest and Trafigura Beheer B.V with 5.02 % interest).

In accordance with the resolution of the Shareholders' meeting dated 19 December 2013, 25,000,000 preferred shares were authorized for issuance at par value of MNT1000 each and, accordingly, the agreement on sales and purchase of preferred shares was entered by and between Golomt Bank LLC and Mr. Zorigt (preferred shareholder) on 24 December 2013. Under this agreement, total investment to preferred shares of the Bank amounts to USD15,000,000, which should be made in two installments (USD10 million is due by 25 December 2013 and USD5 million is due by 25 December 2014). As of 31 December 2013, total preferred shares amount to USD 10,000,000, which is equivalent to MNT16,388,100 thousand divided into 16,388,100 preferred shares.

Subsidiary

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

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

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

The principal activities of the Subsidiary include:

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

2. OPERATING ENVIRONMENT OF THE BANK / GROUP

2.1 General

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

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

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

2.2 Inflation

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

Year ended	Inflation for the period
31 December 2013	12.50%
31 December 2012	14.00%
31 December 2011	10.20%
31 December 2010	13.00%
31 December 2009	4.20%
31 December 2008	22.10%

2.3 Currency transactions

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

Date	USD	EUR
31-Dec-13	1,654.10	2,288.81
31-Dec-12	1,392.10	1,835.83
31-Dec-11	1,396.37	1,806.76
31-Dec-10	1,256.47	1,662.31
31-Dec-09	1,442.84	2,071.34
31-Dec-08	1,267.51	1,786.75

3. BASIS OF PRESENTATION

3.1 General principles

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

3.2 Functional and presentation currency

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

3.3 Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require management's estimate and are most significant for the financial statements are disclosed in Notes 5, Summary of Significant Accounting Policies.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at cost less accumulated depreciation. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value of its land, buildings and investment properties as at 31 December 2013. For the investment property the independent certified appraiser used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of the investment properties, are further explained in respective notes.

(ii) Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. The assessment is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

(iii) Allowance for doubtful debts

The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

(iv) Allowance for obsolete and slow–moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

(v) Legal claims

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

(vi) Deferred income tax assets

Deferred tax assets are reviewed at each reporting 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 utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

3.4 Going concern

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

These financial statements were prepared on a going concern assumption. The Group's liquidity position described in Note 53.4 indicates that the Group has sufficient liquid assets to cover its current liabilities.

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

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

3.5 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- biological assets are measured at fair value less costs to sell;
- land and buildings are measured at fair value;
- investment property is measured at fair value;
- the defined benefit liability is recognised as the present value of the defined benefit obligation plus unrecognised actuarial gains, and less the net total of the plan assets, less unrecognised past service cost and unrecognised actuarial losses.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 Standards and Interpretations effective from 1 January 2013

New and Revised Standards and Interpretations effective from 1 January 2013 have been adopted for the first time in these financial statements. Details of Standards and Interpretations adopted in these financial statements are set out below.

IFRS 10, Consolidated Financial Statements
(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation - Special Purpose Entities" and defines the principle of control, and establishes controls as the basis for consolidation. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. New definition of control contains three elements:

(a) power over an investee,
(b) exposure, or rights, to variable returns from its involvement with the investee, and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

All three of these criteria must be met for an investor to have control over investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

The Group has only one subsidiary and there is no difficulty to assess the power and the adoption of IFRS 10 has no significant effect on consolidation of interest in subsidiary.

IFRS 11 "Joint Arrangements"
(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers". Previously, IAS 31 contained three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets.
Under IFRS 11, there are only two types of joint arrangements. The type of classification depends on the rights and obligations of the parties to the joint arrangements. These types are:

- Joint operation is an arrangement where the investors have rights for the assets and obligations for the liabilities of the arrangement. The party to a joint operation accounts for its share of the assets, liabilities, revenue and expenses.
- Joint venture is an arrangement, where the investors have rights to the net assets of the arrangement. Investments in joint ventures are accounted for under the equity method.

Proportional consolidation of joint arrangements is no longer allowed.

The application of IFRS 11 has not had any effect on the accounting of the Group's joint arrangements.

IFRS 12 "Disclosure of Interest in Other Entities"
(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" (Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) Prospective application	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of guidance for all fair value measurements and disclosure requirements for use across IFRSs. The requirements provide the guidance on how fair value accounting should be applied. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs. The application of IFRS 13 has not had any material effect on the fair value measurements of the Group.
IAS 19 (Revised 2011) "Employee Benefits" (Issued in June 2011 and effective for periods beginning on or after 1 January 2013) Applied retrospectively with certain exceptions	IAS 19 (Revised 2011) makes significant changes to the accounting for defined benefit plans and termination benefits. Amongst other things, the accounting for changes in defined benefit obligations and the fair value of plan assets has significantly changed. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Due to the changes in accounting model, the new element "net interest" (instead of the interest cost and expected return on plan assets) is introduced, which indicates the change during the period in the net defined benefit liability or asset that arises from the passage of time and is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, IAS 19 (Revised 2011) makes changes to the presentation of the defined benefit cost and requires more extensive disclosures. The application of IAS 19 (Revised 2011) has not had any material effect on the financial statements of the Group.
IFRIC Interpretation 20 "Stripping Costs in the Production Phase of a Surface Mine" (Issued in October 2011 and effective for annual periods beginning on or after 1 January 2013)	This Interpretation provides guidance on the accounting for stripping costs incurred in the production phase of a surface mine. The interpretation addresses the accounting for the benefit from the stripping activity. The Group currently has no such arrangements, and the application of IFRIC 20 has not had any effect on the financial statements of the Group.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

4.1 Standards and Interpretations effective from 1 January 2013 (continued)

Amendments to IFRS 7 "Offsetting Financial Assets and Financial liabilities and the Related Disclosures" (Issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) Applied retrospectively	The amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (such as collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 "Financial Instruments: Presentation". The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. As the Group does not have any set-off arrangements, the application of Amendments to IFRS 7 has not had any effect on the financial statements of the Group.
Amendments to IAS 1, "Presentation of Financial Statements" (Issued in June 2011 and effective for annual periods beginning on or after 1 July 2012)	Amendments to IAS 1 changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments also introduce new terminology - the "statement of comprehensive income" is renamed as "statement of profit or loss and other comprehensive income", but the use of the new terminology is not obligatory.

4.2 Annual Improvements to IFRSs 2009–2011 Cycle

IAS 16 "Property Plant and Equipment" – *Classification of servicing equipment*	This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The application of the amendment to IAS 16 has not had any effect on the financial statements of the Group.
IAS 32 "Financial Instruments: Presentation" – *Tax effects of distributions to holders of equity instruments*	This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The application of the amendment to IAS 32 has not had any effect on the financial statements of the Group.
IAS 1 "Presentation of Financial Statements" – *Clarification of the requirement for comparative information*	This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the third statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied with related notes. As the Group did not provide comparative information beyond the required minimum, the application of the amendment to IAS 1 has not had any effect on the financial statements of the Group.

4.3 Standards and Interpretations issued, but not yet effective

Amendments to IAS 32 "Financial Instruments: presentation. Offsetting Financial Assets and Financial liabilities" (Issued in December 2011 and effective for annual periods beginning on or after 1 January 2014) Applied retrospectively	The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group anticipates that application of the amendments to IAS 32 will not impact the Group's financial position or performance.
IFRS 9 "Financial Instruments Part 1: Classification and Measurement" (Issued in November 2009 and October 2010, effective for annual periods beginning on or after 1 January 2015)	IFRS 9 reflects the first phase of the IASB's work to replace IAS 39 and applies to the classification and measurement of financial assets and liabilities. IFRS 9 was further amended in December 2011 to move the mandatory effective date from 1 January 2013 to 1 January 2015. Key features of the standard are as follows: • Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument; • An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only basic loan features). All other debt instruments are to be measured at fair value through profit or loss; • All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. Dividends are to be presented in profit or loss, as long as they represent a return on investment. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss 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. The Group anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

4.3 Standards and Interpretations issued, but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 (Issued in October 2012 and effective for annual periods beginning on or after 1 January 2014) Applied retrospectively Early adoption permitted	Amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The Group anticipates that application of the amendments to IFRS 10, IFRS 12 and IAS 27 will not impact the Group's financial position or performance.
Amendments to IAS 36 "Impairment of Assets" (Issued in May 2013 and effective for annual periods beginning on or after 1 January 2014) Applied retrospectively	The objective of the project is to amend the disclosure requirements in IAS 36 "Impairment of Assets" with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 "Fair Value Measurement". The amendment is not mandatory for the Group until 1 January 2014, but the Group decided to early adopt the amendments as of 1 January 2013, as the aim of the amendments is harmonization of the disclosure requirements and additional disclosures provide useful information. The disclosures for impairment of non-financial assets have been modified accordingly.
Amendments to IAS 39 "Financial Instruments: Recognition and measurement" (Issued in June 2013 and effective for annual periods beginning on or after 1 January 2014) Applied retrospectively	The objective of the Amendment to IAS 39 is to provide relief from the requirement for the discontinuance of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The Group has not entered in the arrangements of the derivatives novation. The Group anticipates that application of the amendments to IAS 39 will not impact the Group's financial position or performance.
IFRIC 21 "Levies" (Issued in May 2013 and effective for annual periods beginning on or after 1 January 2014) Applied retrospectively	IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The Interpretation sets out the accounting for an obligation to pay a levy that is not income tax. It clarifies, that the obligating event that gives rise to a liability to pay a levy, is the activity described in the relevant legislation that triggers the payment of the levy. The liability for the levies is recognised in the financial statements when the event set by the relevant legislation occurs. The Group is not subject to significant levies and anticipates that application of the interpretation will not impact the Group's financial position or performance.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Consolidation

5.1.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Subsidiaries

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

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

In 2011 the Bank set up a subsidiary Golomt Securities LLC. The following subsidiaries were included in the consolidated financial statements as at 31 December 2013 and 31 December 2012:

			Total investments	
Subsidiary	**Nature of business**	**Ownership, (%)**	**31 Dec 2013 MNT'000**	**31 Dec 2012 MNT'000**
Golomt Securities LLC	Brokerage and Dealer	100 %	**200,000**	**200,000**

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

5.1.2 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets if such non-controlling interest entitle the holder to a proportionate share of net assets in the event of liquidation. Otherwise, non-controlling interest is measured at fair value. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

5.1.3 Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

5.1.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business(see 3.1.3 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

5.1.5 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

5.2 Functional and presentation currency

The individual financial statements of each Group entity are presented in its functional currency.

The Mongolian Tugrugs ("MNT") is the functional currency of the Bank and the presentation currency of the consolidated financial statements of the Group is MNT ("MNT").

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case exchange rates at the date of transactions are used;
- all equity items are translated at the historical exchange rates;
- all resulting exchange differences are recognised as separate component in equity, and
- in the consolidated statement of cash flows, cash balances at beginning and end of each period are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the periods presented. Resulting exchange differences are presented as the effect of translation to presentation currency.

5.3 Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss. Non-monetary items carried at historical cost are translated at the exchange rates prevailing at the date of transaction. Non-monetary items carried at fair value are translated at the exchange rates prevailing at the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised as finance income or finance costs on net basis.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Foreign currency transactions (continued)

	2013	2012
Mongolian National Turgug/US Dollar		
At 31 December	1,654.10	1,392.10
Average rate for the year ended	1,523.93	1,359.24
Mongolian National Turgug/ Euro		
At 31 December	2,275.63	1,835.83
Average rate for the year ended	2,026.36	1,748.47
Mongolian National Turgug/ British Pound Sterling		
At 31 December 31-Dec	2,728.02	2,240.03
Average rate for the year ended	2,388.00	2,155.11
Mongolian National Turgug/ Chinese Yuani		
At 31 December	272.88	223.39
Average rate for the year ended	248.03	215.48
Mongolian National Turgug/ Russian Rouble		
At 31 December	50.56	45.66
Average rate for the year ended	47.78	43.79

5.4 Cash and cash equivalents

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

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

5.5 Mandatory cash balances with the Central Bank of Mongolia

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

5.6 Financial assets

The Group classifies its financial assets in the following categories:

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

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

(i) Initial recognition of financial assets

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

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

(ii) Fair value measurement

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

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

(iii) Amortised cost of financial instruments

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

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

(iv) Derecognition of financial assets

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

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

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

(v) Reclassification of financial assets

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 Financial assets (continued)

(v) Reclassification of financial assets (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 Due from other banks

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

5.8 Loans to customers

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

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

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

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

5.9 Investments held to maturity

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 Financial assets available for sale

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

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

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

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

5.11 Promissory notes purchased

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

5.12 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of expected future cash flows. The carrying amount of the asset is reduced through the use of the impairment provision account and the amount of the loss is recognised in the statement of comprehensive income.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the statement of comprehensive income.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying amount of impaired financial assets is not reduced directly.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.12 Impairment of financial assets (continued)

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

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

(ii) Impairment of investments held to maturity

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

(iii) Impairment of financial assets available for sale

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

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

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

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

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

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

5.13 Offsetting

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

5.14 Financial liabilities

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

Initially, a financial liability shall be measured by the Group at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

5.15 Financial liabilities carried at amortised cost

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

Due to other banks. Due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits.

Debt securities issued. Debt securities issued include promissory notes issued by the Group. If the Group purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income as gain from retirement of debt.

Other borrowed funds. Other borrowed funds include subordinated loans received by the Group and are recorded as cash is advanced to the Group.

5.16 Repurchase and reverse repurchase agreements

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.17 Property, plant and equipment

5.17.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, excluding buildings which are measured at fair value less accumulated depreciation and impairment losses recognised at the date of revaluation.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

5.17.2 Revaluation

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

5.17.3 Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

5.17.4 Depreciation

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

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

Land has an indefinite useful life and is not depreciated.

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

5.17.5 Capital construction in progress

Capital construction in progress comprises costs directly related to construction of buildings, vehicles, equipment and machinery. Cost also includes borrowing costs capitalised during construction period where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into production.

5.18 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

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

Subsequent to initial recognition, investment property is stated at revalued cost less accumulated depreciation and any impairment losses. Revaluation is made at the end of 2013 and the investment properties are stated at the cost approximating to fair value.

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property.

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

5.19 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognised if:
- the asset is expected to generate future economic benefits for the Group;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

5.20 Operating leases

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.20 Operating leases (continued)

Operating lease – the Group as lessor

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

5.21 Share capital

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

5.22 Share premium

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

5.23 Dividends

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

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

5.24 Contingent assets and liabilities

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

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

5.25 Credit related commitments

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

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

5.26 Provisions

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

5.27 Taxation

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

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

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

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

5.28 Employee benefits and social contributions

(i) Short term benefits

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

(ii) Defined contribution plans

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.29 Income and expense recognition

(i) Interest and similar income and expense

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

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

(ii) Fee and commission income

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

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

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

5.30 Segment reporting

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

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

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

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

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

6. SEGMENT REPORTING

The Group has the following four main business segments:

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group and the Bank's total revenue in 2013 or 2012.

Segment information on the Group's main business segments for the year ended 31 December 2013 is given in the table below:

6. SEGMENT REPORTING (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2013.

	Corporate Banking	Retail banking	Investment Banking	Treasury	Unallocated	Total Bank
	2013	2013	2013	2013	2013	2013
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Third party	126,897,647	(4,750,048)	(787,144)	44,951,969	-	166,312,423
Inter-segment	(70,847,976)	76,904,347	1,342,027	(7,398,397)		-
Total operating income	**56,049,670**	**72,154,299**	**554,883**	**37,553,571**	**–**	**166,312,423**
Credit loss expenses	(27,346,965)	(2,480,302)	-	1,886,931		(27,940,336)
Impairment loss on financial investment						
Net operating income	**28,702,705**	**69,673,997**	**554,883**	**39,440,502**	**–**	**138,372,087**
Results						
Interest and similar income	141,730,364	92,873,949	850	56,341,005	-	290,946,169
Interest and similar expense	(91,432,930)	(48,636,316)	273,967	(44,899,993)	-	(184,695,271)
Net interest income	**50,297,434**	**44,237,634**	**274,817**	**11,441,013**	**–**	**106,250,898**
Fee and commission income	5,647,897	12,350,297	391,979	7,347,645		25,737,817
Fee and commission expense	(3,131)	(1,148,166)	(112,015)	(4,179,258)		(5,442,569)
Net fees and commission income	**5,644,766**	**11,202,131**	**279,963**	**3,168,387**	**–**	**20,295,248**
Net trading income/(loss)	-	-	-	2,248,934	-	2,248,934
Depreciation of property and equipment	(496,602)	(4,091,681)	(8,252)	(319,479)	(580,816)	(5,496,830)
Amortization of intangible assets	(218,987)	(616,844)	(1,455)	(145,531)	(17,156)	(999,974)
Segment profit (loss)	**20,837,589**	**20,548,378**	**154,168**	**30,246,318**	**(597,973)**	**71,188,481**
Income tax expense					(14,128,557)	(14,128,557)
Profit for the year						**57,059,924**
Assets						
Capital expenditures						
Property and equipment	31,595	3,605,563	4,980	9,268	11,929,673	15,581,080
Other intangible assets	-	-	-	-	4,668,206	4,668,206
Total assets	**1,270,147,319**	**913,832,099**	**748,313**	**1,421,583,529**	**143,328,537**	**3,749,639,798**
Total liabilities	**1,249,758,213**	**893,113,784**	**594,225**	**1,391,246,216**	**(57,017,511)**	**3,477,694,925**

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

	Corporate Banking 2012 MNT'000	Retail banking 2012 MNT'000	Investment Banking 2012 MNT'000	Treasury 2012 MNT'000	Unallocated 2012 MNT'000	Total Bank 2012 MNT'000
Third party	97,045,531	(36,798,389)	12,307	28,660,036	-	88,919,485
Inter-segment	(70,948,198)	86,521,658	-	(15,573,460)		-
Total operating income	**26,097,333**	**49,723,269**	**12,307**	**13,086,576**	**–**	**88,919,485**
Credit loss expenses	(7,574,826)	(3,186,125)	-	(29,096)		(10,790,047)
Impairment loss on financial investment	-	-	-	-	-	-
Net operating income	**18,522,507**	**46,537,144**	**12,307**	**13,057,480**	**–**	**78,129,438**
Results						
Interest and similar income	93,656,610	72,761,010	-	33,827,395	-	200,245,015
Interest and similar expense	(71,889,930)	(43,783,865)	-	(27,451,177)	-	(143,124,972)
Net interest income	**21,766,680**	**28,977,145**	**–**	**6,376,218**	**–**	**57,120,043**
Fee and commission income	4,257,716	10,228,033	27,534	5,467,047	-	19,980,330
Fee and commission expense	(1,564)	(807,411)	(15,284)	(4,113,372)	-	(4,937,631)
Net fees and commission income	**4,256,152**	**9,420,622**	**12,250**	**1,353,675**	**–**	**15,042,699**
Net trading income/(loss)	-	-	-	385,618	-	385,618
Depreciation of property and equipment	(370,670)	(2,893,269)	(6,719)	(154,198)	(382,056)	(3,806,912)
Amortization of intangible assets	(164,087)	(418,789)	(50)	(65,520)	(10,837)	(659,283)
Segment profit (loss)	**12,740,419**	**12,038,894**	**(246,725)**	**8,441,280**	**(238,720)**	**32,735,148**
Income tax expense					(6,694,845)	(6,694,845)
Profit for the year						**26,040,302**
Assets						
Capital expenditures						
Property and equipment	58,207	7,632,413	4,395	24,890	2,589,495	10,309,400
Other intangible assets	-	379,022	-	-	719,364	1,098,386
Total assets	**970,634,104**	**583,872,806**	**456,108**	**818,074,828**	**153,750,608**	**2,526,788,454**
Total liabilities	**954,492,025**	**564,501,188**	**702,926**	**813,672,450**	**6,827,049**	**2,340,195,638**

7. CASH AND CASH EQUIVALENTS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Cash on hand	94,632,268	98,334,104
Cash deposits with the Bank of Mongolia	476,110,080	327,726,553
Less: Minimum reserve with The Bank of Mongolia not available to finance the Group and the Bank's day to day operations	(259,809,543)	(239,329,820)
	310,932,806	**186,730,836**

8. MANDATORY CASH BALANCES WITH THE BANK OF MONGOLIA

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Obligatory reserve in Central Bank	259,809,543	239,329,820

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 12.0% (2012: 12.0 %) of customer deposits for periods of 2 weeks.

As at 31 December 2013, the average obligatory reserve required by the Bank of Mongolia for that period of 2 weeks was MNT 178,725 million (2012: MNT 133,384 million) for local currency and MNT 81,084 million (2012: MNT 105,945 million) for foreign currency both maintained on current accounts with the Bank of Mongolia.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss reflected in the consolidated statement of financial position as at 31 December 2013 and 31 December 2012 include trading securities.

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Corporate securities	184,554	520,464

Quoted, available-for-sale and held-for-trading debt securities represent investments in several equities quoted on the Hong Kong Stock Exchange.

Below is the information on changes in the portfolio of financial assets at fair value through profit and loss during the years ended 31 December 2013 and 2012:

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**935,560**	**1,235,916**
Fair value adjustment	(415,096)	(174,765)
Fair value as at 1 January	**520,464**	**1,061,151**
Acquisitions	-	218,090
Disposal	-	(724,412)
Effect of exchange rate changes	175,829	205,966
Carrying value as at 31 December	**1,111,389**	**935,560**
Fair value adjustment	(926,835)	(415,096)
Fair value as at 31 December	**184,554**	**520,464**

10. DUE FROM OTHER BANKS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Current account balances-domestic banks	5,078,753	11,096,853
Current account balances-foreign banks	145,754,357	203,536,118
Savings- domestic banks	30,313	30,308
Savings- foreign banks	8,270,684	-
Other	523,318	153,652
	159,657,425	**214,816,931**

11. FINANCIAL ASSETS AVAILABLE FOR SALE

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Unquoted equities, at cost	2,398,095	679,271
Quoted security, at fair value	796,643	1,099,295
	3,194,738	**1,778,566**

Below is the information on changes in the portfolio of financial assets available for sale during the years ended 31 December 2013 and 2012:

	2013 MNT'000	2012 MNT'000
Quoted	4,425,048	4,341,912
Unquoted	679,271	642,922
Carrying value as at 1 January:	**5,104,319**	**4,984,834**
Fair value adjustment	(3,325,753)	(2,225,894)
Fair value as at 1 January	**1,778,566**	**2,758,940**
Additions:		
Unquoted	1,755,174	33,700
Quoted	-	86,203
Total acquisitions	**1,755,174**	**119,903**
Effect of exchange difference	749,602	(417)
Disposal:		
Quoted	-	-
Unquoted	46,930	-
Total disposals	**46,930**	**–**
Carrying value as at 31 December	**7,562,165**	**5,104,319**
Fair value adjustment	(4,367,427)	(3,325,753)
Fair value as at 31 December	**3,194,738**	**1,778,566**

12. FINANCIAL ASSETS HELD TO MATURITY

		At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Treasury bills of the Bank of Mongolia	(a)	549,098,116	247,402,728
Government bonds	(b)	154,939,387	72,554,598
Quoted debt security	(c)	-	2,784,250
Promissory notes	(d)	-	75,370,294
MMC Bond	(e)	26,976,882	-
		731,014,385	**398,111,870**

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

The Bank of Mongolia central bank and treasury bills ("BOM bills") are interest bearing short-term bills issued at a discount. Below is the information on changes in treasury bills of BOM during the years ended 31 December 2013 and 2012:

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**250,000,000**	**181,640,000**
Discount on bills	(2,597,272)	(3,063,138)
Amortized cost as at 1 January	**247,402,728**	**178,576,862**
Acquisitions	15,002,646,000	2,262,267,000
Disposals	(14,702,646,000)	(2,193,907,000)
Carrying value as at 31 December	**550,000,000**	**250,000,000**
Discount on bills	(901,884)	(2,597,272)
Amortized cost as at 31 December	**549,098,116**	**247,402,728**

(b) Government bonds

Government bonds are issued by the Ministry of Finance with maturities of less than 7 years, and issued at a discount. Below is the information on changes in Government bonds during the years ended 31 December 2013 and 2012:

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**73,545,000**	**49,280,000**
Accrued interest income	(1,709,378)	(1,566,777)
Amortized cost as at 1 January	**72,554,598**	**50,846,777**
Acquisitions	487,814,150	48,765,000
Disposal	(404,416,000)	(24,500,000)
Carrying value as at 31 December	**156,943,150**	**73,545,000**
Discount on bonds	(3,095,650)	(1,709,378)
Accrued interest income	1,091,887	718,976
Amortized cost as at 31 December	**154,939,387**	**72,554,598**

(c) Quoted debt securities

Quoted held-to-maturity debt security represents investment in Trade and Development Bank Bond listed on the Singapore Exchange Securities Trading Limited. Below is the information on changes in quoted debt security portfolio during the years ended 31 December 2013 and 2012:

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**2,828,410**	**2,792,740**
Accrued interest income	44,210	44,104
Discount on securities	(44,160)	(98,692)
Amortized cost as at 1 January	**2,828,460**	**2,738,152**
Acquisitions		
Disposal	(3,446,950)	-
Accrued interest income	-	44,210
Effect of exchange rate changes	618,540	(8,540)
Carrying value as at 31 December	**–**	**2,828,410**
Discount on securities	-	(44,160)
Amortized as at 31 December	**–**	**2,784,250**

(d) Promissory notes

The promissory notes represented the interest-bearing notes issued by 3 entities, which have been matured during 2013.

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**68,892,814**	**72,062,060**
Accrued interest income	6,477,479	87,599
Discount on notes	-	(141,498)
Amortized cost as at 1 January	**75,370,293**	**72,008,161**
Acquisitions:		
Interest-bearing notes	-	106,094,914
	–	**106,094,914**
Disposals		
Discount notes	**–**	**(10,996,508)**
Interest-bearing notes	(69,164,114)	(98,460,200)
	(69,164,114)	(109,456,708)
Effect of exchange rate changes	271,300	192,548
Carrying value as at 31 December	**–**	**68,892,814**
Accrued interest income	-	6,477,479
Amortized cost as at 31 December	**–**	**75,370,293**

12. FINANCIAL ASSETS HELD TO MATURITY (continued)

(e) MMC (Mongolian Mortgage Corporation) bonds

The MMC bonds represent the bonds secured by фцу+ loans provided by the Bank to the customers.

	2013 MNT'000	2012 MNT'000
Carrying value as at 1 January	**–**	**–**
Acquisitions:		
Discount notes	26,943,000	-
Interests accrued	33,882	-
	26,976,882	**–**
Carrying value as at 31 December	**26,976,882**	**–**
Accrued interest income	-	
Discount on notes	-	-
Amortized cost as at 31 December	**26,976,882**	**–**

13. INTERESTS IN SUBSIDIARY

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Unquoted share, at cost	**200,000**	**200,000**

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

14. DERIVATIVE FINANCIAL INSTRUMENT

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Assets		
- Derivative held for trading - forward foreign currency exchange contract	2,550,950	3,220
Liabilities		
- Derivative held for trading - forward foreign currency exchange contract	962,305	1,172,027
	1,588,645	**1,168,807**

The amount of derivative represents the derivative arising from foreign exchange forward contracts.

15. LOANS AND ADVANCES TO CUSTOMERS – NET

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Corporate loans	963,588,386	766,836,422
Loans to small and medium business	634,592,067	304,216,178
Consumer loans to individuals	172,817,915	132,751,032
Mortgage loans to individuals	485,784,545	249,997,245
	2,256,782,913	**1,453,800,877**
Less: Provision for impairment of loans to customers	(57,555,053)	(25,949,242)
Total loans to customers	**2,199,227,860**	**1,427,851,635**

The provision of impairment of loans to customer represents total impairment on loans and interests accrued.

Movements in the provision for impairment of loans to customers during 2013 and 2012 are as follows:

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Provision for impairment of loans to customers as at 1 January 2012	**9,575,415**	**7,685,378**	**77,333**	**216,180**	**17,554,306**
Provision/(recovery of provision) for impairment during 2012	7,388,738	862,554	285,246	69,224	8,605,762
Exchange difference	(28,163)	(18,516)	(16,673)	(11,511)	(74,863)
Loans to customers written off during the year as uncollectible	-	(81,158)	(54,806)	-	(135,964)
Provision for impairment of loans to customers as at 31 December 2012	**16,935,990**	**8,448,258**	**291,100**	**273,893**	**25,949,241**
Provision/(recovery of provision) for impairment during 2013	25,771,676	(144,238)	1,832,542	(117,212)	27,342,768
Exchange difference	3,133,351	1,155,835	71,756	62,856	4,423,798
Loans to customers written off during the year as uncollectible	-	(29,021)	(131,734)	-	(160,755)
Provision for impairment of loans to customers as at 31 December 2013	**45,841,017**	**9,430,834**	**2,063,664**	**219,538**	**57,555,053**

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

	At 31 Dec 2013		At 31 Dec 2012	
	MNT'000	%	MNT'000	%
Agriculture	54,213,516	2.40%	17,773,925	1.22%
Mining & Exploration	257,783,816	11.42%	149,452,801	10.28%
Manufacturing	289,325,032	12.82%	126,045,558	8.67%
Electricity & Oil	178,415,942	7.91%	132,200,353	9.09%
Construction	209,297,917	9.27%	139,196,389	9.57%
Infrastructure	42,295,242	1.87%	24,203,447	1.66%
Trade - Whole & Ret.	220,621,902	9.78%	149,617,943	10.29%
Maintenance	30,579,055	1.35%	15,693,595	1.08%
Hotel & Restaurant	33,573,138	1.49%	9,775,361	0.68%
Tourism	41,676,617	1.85%	42,154,035	2.90%
Transport & Comm.	42,060,104	1.86%	75,982,404	5.23%
Finance	61,619,030	2.73%	86,338,573	5.94%
Real estate	80,313,586	3.56%	74,416,770	5.12%
Education	17,358,844	0.77%	1,390,632	0.10%
Healthcare	16,711,918	0.74%	7,186,532	0.49%
Social services	17,780,748	0.79%	17,773,527	1.22%
Entrepreneurship	305,527	0.01%	692,991	0.05%
International organization	6,037	0.00%	2,784	0.00%
Public service	191,552	0.01%	1,154,979	0.08%
Mortgage & House maintenance	485,801,607	21.53%	250,040,708	17.20%
Car	8,993,506	0.40%	7,776,626	0.53%
Home appliances	1,728,337	0.08%	2,263,936	0.16%
Salary & Consumption	166,129,940	7.36%	122,667,008	8.44%
Total loans to customers (gross)	**2,256,782,913**	**100.00%**	**1,453,800,877**	**100.00%**

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

As at 31 December 2013, the Group had 15 borrowers (2012: 21 borrowers) with the aggregate loan amount above 10% of the Group's capital. The aggregate amount of these loans was MNT567,579,569 thousand or 25% of total loans to customers (2012: MNT595,700,219 thousand or 42% of total loans to customers).

Below is the credit quality analysis of loans as at 31 December 2013:

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Corporate loans				
Individually impaired loans	**67,189,001**	**30,451,156**	**36,737,846**	**45.32%**
Current loans (not past due)	-	-	-	-
Collectively impaired loans	**896,399,385**	**15,390,386**	**881,008,999**	**13.00%**
Current loans (not past due)	881,352,740	13,603,008	867,749,733	1.54%
Less than 1 month overdue	-	-	-	0.00%
1 to 2 months overdue	15,046,645	1,787,378	13,259,266	11.88%
2 to 3 months overdue	-	-	-	0.00%
3 to 6 months overdue	-	-	-	0.00%
6 months to a year overdue	-	-	-	0.00%
1 to 2 years overdue	-	-	-	0.00%
More than 2 years overdue	-	-	-	0.00%
Total corporate loans	**963,588,386**	**45,841,542**	**917,746,845**	**4.76%**
Loans to small and medium business				
Individually impaired loans	**31,952,455**	**6,716,383**	**25,236,071**	**21.02%**
Current loans (not past due)				
Collectively impaired loans	**602,639,612**	**2,714,452**	**599,925,161**	**17.42%**
Current loans (not past due)	577,214,760	2,256,183	574,958,576	0.39%
Less than 1 month overdue	7,417,429	15,449	7,401,981	0.21%
1 to 2 months overdue	4,096,657	104,712	3,991,944	2.56%
2 to 3 months overdue	905,310	30,541	874,769	3.37%
3 to 6 months overdue	10,432,127	251,724	10,180,403	2.41%
6 months to a year overdue	1,418,099	19,058	1,399,041	1.34%
1 to 2 years overdue	846,751	23,235	823,517	2.74%
More than 2 years overdue	308,479	13,550	294,930	4.39%
Total loans to small and medium business	**634,592,067**	**9,430,835**	**625,161,232**	**1.49%**

Below is the credit quality analysis of loans as at 31 December 2013:

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Consumer loans to individuals				
Individually impaired loans	**5,799,882**	**1,919,516**	**3,880,366**	**33.10%**
Current loans (not past due)				
Collectively impaired loans	**167,018,033**	**143,623**	**166,874,410**	**13.66%**
Current loans (not past due)	160,980,378	80,000	160,900,379	0.05%
Less than 1 month overdue	2,533,219	2,541	2,530,679	0.10%
1 to 2 months overdue	1,106,053	9,808	1,096,245	0.89%
2 to 3 months overdue	488,215	7,581	480,634	1.55%
3 to 6 months overdue	768,438	14,219	754,219	1.85%
6 months to a year overdue	556,904	9,234	547,669	1.66%
1 to 2 years overdue	376,608	10,037	366,570	2.67%
More than 2 years overdue	208,218	10,203	198,015	4.90%
Total consumer loans to individuals	**172,817,915**	**2,063,139**	**170,754,776**	**1.19%**
Mortgage loans to individuals				
Individually impaired loans	**634,519**	**57,404**	**577,115**	**9.05%**
Current loans (not past due)				
Collectively impaired loans	**485,150,026**	**162,133**	**484,987,893**	**6.71%**
Current loans (not past due)	470,161,030	117,960	470,043,070	0.03%
Less than 1 month overdue	10,708,521	3,390	10,705,131	0.03%
1 to 2 months overdue	1,922,259	9,111	1,913,148	0.47%
2 to 3 months overdue	1,146,106	11,253	1,134,853	0.98%
3 to 6 months overdue	243,641	1,504	242,137	0.62%
6 months to a year overdue	766,284	14,181	752,103	1.85%
1 to 2 years overdue	175,125	4,726	170,399	2.70%
More than 2 years overdue	27,060	8	27,052	0.03%
Total mortgage loans to individuals	**485,784,545**	**219,537**	**485,565,008**	**0.05%**
Total loans to customers	**2,256,782,913**	**57,555,053**	**2,199,227,860**	**2.55%**

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

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

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Corporate loans				
Individually impaired loans	**45,816,240**	**13,113,564**	**32,702,676**	**28.62%**
Current loans (not past due)				
Collectively impaired loans	**721,020,182**	**3,822,951**	**717,197,231**	**0.53%**
Current loans (not past due)	716,703,558	3,822,951	712,880,607	0.53%
Less than 1 month overdue	-	-	-	0.00%
1 to 2 months overdue	4,316,624	-	4,316,624	0.00%
2 to 3 months overdue	-	-	-	0.00%
3 to 6 months overdue	-	-	-	0.00%
6 months to a year overdue	-	-	-	0.00%
1 to 2 years overdue	-	-	-	0.00%
More than 2 years overdue	-	-	-	0.00%
Total corporate loans	**766,836,422**	**16,936,515**	**749,899,907**	**2.21%**
Loans to small and medium business				
Individually impaired loans	**23,013,898**	**6,608,569**	**16,405,329**	**28.72%**
Current loans (not past due)				
Collectively impaired loans	**281,202,280**	**1,839,689**	**279,362,590**	**24.32%**
Current loans (not past due)	269,333,290	1,519,682	267,813,607	0.56%
Less than 1 month overdue	3,159,748	12,342	3,147,405	0.39%
1 to 2 months overdue	2,132,348	57,411	2,074,936	2.69%
2 to 3 months overdue	1,792,971	82,940	1,710,032	4.63%
3 to 6 months overdue	189,638	8,701	180,938	4.59%
6 months to a year overdue	939,066	36,655	902,411	3.90%
1 to 2 years overdue	2,887,242	87,141	2,800,101	3.02%
More than 2 years overdue	767,977	34,817	733,160	4.53%
Total loans to small and medium business	**304,216,178**	**8,448,258**	**295,767,919**	**2.78%**

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

	Gross loans MNT'000	Impairment provision MNT'000	Loans net of impairment provision MNT'000	Impairment/ gross loans %
Consumer loans to individuals				
Individually impaired loans	**203,857**	**203,857**	**–**	**100.00%**
Current loans (not past due)				
Collectively impaired loans	**132,547,175**	**86,718**	**132,460,457**	**14.30%**
Current loans (not past due)	128,586,044	31,922	128,554,122	0.02%
Less than 1 month overdue	1,135,071	1,162	1,133,909	0.10%
1 to 2 months overdue	256,875	2,995	253,880	1.17%
2 to 3 months overdue	664,438	7,834	656,604	1.18%
3 to 6 months overdue	470,995	9,630	461,365	2.04%
6 months to a year overdue	549,793	10,994	538,799	2.00%
1 to 2 years overdue	754,930	14,646	740,284	1.94%
More than 2 years overdue	129,029	7,535	121,494	5.84%
Total consumer loans to individuals	**132,751,032**	**290,575**	**132,460,457**	**0.22%**
Mortgage loans to individuals				
Individually impaired loans	**437,753**	**34,368**	**403,385**	**7.85%**
Current loans (not past due)				
Collectively impaired loans	**249,559,492**	**239,525**	**249,319,967**	**7.58%**
Current loans (not past due)	243,018,443	179,617	242,838,824	0.07%
Less than 1 month overdue	1,723,757	1,103	1,722,654	0.06%
1 to 2 months overdue	1,152,093	7,605	1,144,488	0.66%
2 to 3 months overdue	829,824	7,485	822,339	0.90%
3 to 6 months overdue	593,436	9,462	583,975	1.59%
6 months to a year overdue	201,122	2,273	198,850	1.13%
1 to 2 years overdue	1,974,449	30,922	1,943,527	1.57%
More than 2 years overdue	66,368	1,058	65,310	1.59%
Total mortgage loans to individuals	**249,997,245**	**273,893**	**249,723,352**	**0.11%**
Total loans to customers	**1,453,800,877**	**25,949,242**	**1,427,851,635**	**1.78%**

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

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

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

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

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

The Central Bank of Mongolia requires the commercial banks to maintain the ratio not exceeding 5 percent on the amount of loan, guarantee and LCs to an individual customer.

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

	At 31 December 2013		At 31 December 2012	
	Total Capital	5 percent of total capital	Total Capital	5 percent of total capital
	MNT'000	.MNT'000	MNT'000	MNT'000
Preferred shares	16,388,100	819,405	-	-
Ordinary shares	25,907,593	1,295,380	25,907,593	1,295,380
Share premium	42,322,298	2,116,115	42,322,298	2,116,115
Retained earnings	173,390,689	8,669,534	116,534,085	5,826,704
Other components of equity	13,838,281	691,914	1,934,247	96,712
Subordinated loans	58,261,173	2,913,059	34,691,373	1,734,569
	330,108,134	**16,510,375**	**221,389,596**	**11,069,480**
Guarantee issued to individual customer		19,651,899		16,539,150
		5.95%		7.47%

Below is the information on the collateral structure as at 31 December 2013:

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Receivable	100,814,211	29,987,584	-	-	130,801,795
Inventory	69,688,758	20,429,514	185,930	-	90,304,202
Building	495,102,948	775,800,608	22,310,456	887,487,855	2,180,701,867
Other assets	47,876,080	104,477,381	268,502	45,579,643	198,201,606
Land	672,763,880	200,581,099	378,787	2,292,883	876,016,649
Equipment & Vehicle	222,038,017	165,886,234	19,801,231	217,000	407,942,482
Cash	-	30,812,042	59,758,530	1,117,080	91,687,652
Income	400,238,370	101,726,638	355,156,557	3,533,909	860,655,474
Securities	277,670,832	82,557,370	-	-	360,228,202
Total collateral	**2,286,193,096**	**1,512,258,470**	**457,859,993**	**940,228,370**	**5,196,539,929**

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

	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Receivable	88,092,960	10,936,800	-	-	99,029,760
Inventory	74,755,000	20,164,950	694,039	-	95,613,989
Building	486,289,517	364,048,773	34,333,596	501,403,238	1,386,075,124
Other assets	178,689,001	127,435,634	1,609,556	24,796,666	332,530,857
Land	365,497,636	190,294,216	54,600	8,431,743	564,278,195
Equipment & Vehicle	338,660,654	124,759,506	19,438,359	236,500	483,095,019
Cash	297,659,030	59,740,222	91,233,412	1,089,369	449,722,033
Income	158,465,193	7,913,245	361,015,010	1,121,328	528,514,776
Securities	483,963,686	111,888,731	-	213,268	596,065,685
Total collateral	**2,472,072,677**	**1,017,182,077**	**508,378,573**	**537,292,112**	**4,534,925,438**

16. PROPERTY, PLANT AND EQUIPMENT

Cost	Building	Motor Vehicles	Computer equipment	PPE reserve	Furniture	Construction in progress	Leasehold improvement	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Balance at 01 January 2012	**7,561,463**	**1,602,256**	**10,543,929**	**1,705,227**	**2,318,976**	**15,230,361**	**–**	**38,962,212**
Acquisition	147,154	665,691	316,219	6,107,625	519,941	2,302,218	379,022	**10,437,870**
Reclassification	-	-	5,573,090	(5,573,090)	-	-	-	**–**
Disposal	-	(78,720)	(192,230)	-	(6,765)	(694,148)	-	**(971,863)**
Capitalization	3,058,246	-	-	-	-	(3,058,246)	-	**–**
Write-offs	-	(70,688)	(561,890)	-	(36,856)	-	-	**(669,434)**
Balance at 31 December 2012	**10,766,863**	**2,118,539**	**15,679,118**	**2,239,762**	**2,795,296**	**13,780,185**	**379,022**	**47,758,785**
Acquisition	1,988,727	403,577	7,225,211	1,376,715	494,981	3,922,269	169,600	15,581,080
Reclassification	-	-	-	-	(390,786)	-	-	(390,786)
Capitalization	2,993,699	-	-	-	-	(2,993,699)	-	-
Disposal	-	215,276	1,066,524	198,649	11,726	-	-	1,492,175
Write-offs	-	-	689,258	-	20,681	-	-	709,939
Revaluation	6,408,197	-	-	-	247,545	-	-	6,408,197
Balance at 31 December 2013	**22,157,486**	**2,306,840**	**21,148,547**	**3,417,828**	**2,867,084**	**14,708,755**	**548,622**	**67,155,162**

Accumulated Depreciation	Building	Motor Vehicles	Computer equipment	PPE reserve	Furniture	Construction in progress	Leasehold improvement	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Balance at 01 January 2012	**490,817**	**434,619**	**6,557,494**	**–**	**955,200**	**–**	**–**	**8,438,130**
Reclassification								**–**
Charge for the year	265,518	295,491	2,926,593	-	253,152	-	96,975	**3,837,729**
Disposal	-	(40,702)	(188,651)	-	(6,404)	-	-	**(235,757)**
Write-offs	-	(70,688)	(552,761)	-	(24,119)	-	-	**(647,568)**
Balance at 31 December 2012	**756,335**	**618,720**	**8,742,675**	**–**	**1,177,829**	**–**	**96,975**	**11,392,534**
Charge for the year	245,548	306,831	4,358,491	-	932,939	-	168,325	6,012,134
Reclassification	-	-		-	(153,518)	-	-	(153,518)
Disposal	-	28,395	1,013,803	-	7,512	-	-	1,049,710
Write-offs	-	-	681,718	-	14,713	-	-	696,431
Revaluation	(1,019,894)	-	-	-	-	-	-	(1,019,894)
Balance at 31 December 2013	**(18,011)**	**897,156**	**11,405,645**	**–**	**1,935,025**	**–**	**265,300**	**14,485,115**
Net carrying amount								
At 31 December 2012	**10,010,528**	**1,499,819**	**6,936,443**	**2,239,762**	**1,617,467**	**13,780,185**	**282,047**	**36,366,251**
At 31 December 2013	**22,175,497**	**1,409,684**	**9,742,902**	**3,417,828**	**932,059**	**14,708,755**	**283,322**	**52,670,047**

The carrying amount above includes the cost of property, plant and equipment of Golomt Security LLC, a subsidiary of the Bank, in the amount of MNT35,580 thousand less the accumulated depreciation of MNT15,089 thousand as of 31 December 2013 (2012: net book value at MNT29,201 thousand).

17. INTANGIBLE ASSETS

	Software and Licenses	Web domain	Land possession right	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Cost				
Balance at 01 January 2012	**4,289,944**	**2,408**	**329**	**4,292,681**
Additions	719,364	1,108		720,472
Balance at 31 December 2012	**5,009,308**	**3,516**	**329**	**5,013,153**
Additions	3,995,217	-	672,984	4,668,201
Balance at 31 December 2013	**9,004,525**	**3,516**	**673,313**	**9,681,354**
Accumulated amortization				
Balance at 01 January 2012	**3,646,584**	**107**		**3,646,691**
Charge for the year	562,308	1,314		563,622
Balance at 31 December 2012	**4,208,892**	**1,421**	**–**	**4,210,313**
Charge for the year	831,642	1,047		832,689
Balance at 31 December 2013	**5,040,534**	**2,468**	**–**	**5,043,002**
Net carrying amount				
at 31 December 2012	**800,416**	**2,095**	**329**	**802,840**
at 31 December 2013	**3,963,991**	**1,048**	**673,313**	**4,638,352**

The carrying amount of intangible assets of the Group includes the net carrying amount of web domain of Golomt Security LLC, a subsidiary of the Bank, in the amount of MNT1,048 thousand as at 31 December 2013 (2012: MNT2,098 thousand).

18. INVESTMENT PROPERTIES

	2013	2012
	MNT'000	MNT'000
Cost		
Balance at 01 January	**1,104,966**	**1,122,927**
Additions	150,334	32,599
Reclassification	-	(50,560)
Balance at 31 December	**1,255,300**	**1,104,966**
Accumulated depreciation		
Balance at 01 January	**415,074**	**342,484**
Charge for the year	(368,824)	114,450
Reclassification	-	(41,860)
Balance at 31 December	**46,250**	**415,074**
Net carrying amount		
at 31 December 2012	689,892	780,443
at 31 December 2013	1,209,050	689,892

The investment properties accounted for under cost approach represent the carrying value of complex of summer camp buildings not used for principal activity of the Group.
The fair value of these investment properties is approximately to MNT1,200,000 thousand as of 31 December 2013 (2012: MNT990,720 thousand).

19. FORECLOSED PROPERTIES

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Financial asset at fair value	9,512,024	5,377,344
Non-financial assets at cost	2,899,092	523,310
Less: Impairment provision	(523,310)	(523,310)
	11,887,806	**5,377,344**

Changes in impairment provision of foreclosed properties

	2013 MNT'000	2012 MNT'000
Balance at 01 January	**523,310**	**604,029**
Recovered	-	(68,000)
Write-offs	-	(12,719)
Balance at 31 December	**523,310**	**523,310**

The financial asset held as foreclosed properties (held as recovery of impaired loans) represents the quoted securities at cost of MNT5,518,852 thousand (2012: MNT5,518,852 thousand) with fair value adjustment of MNT3,993,172 (2012: MNT(141,509)). The Group does not have intention to have benefit from changes in fair value and agreed to use the changes in fair value in recovery of impaired loans to customers.

20. OTHER ASSETS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Advance payments related to business transactions	9,122,427	5,861,320
Accounts receivable related to business transactions	3,365,729	4,961,856
Consumables and other inventories	1,058,026	977,470
	13,546,182	**11,800,646**
	(883,898)	(690,342)
Less: provision for impairment of other assets		
Total other assets	**12,662,284**	**11,110,304**

20. OTHER ASSETS (continued)

Movements in the provision for impairment of other assets during 2013 and 2012 are as follows:

	Advance payments MNT'000	Accounts receivable MNT'000	Total MNT'000
Provision for impairment of other assets as at 1 January 2012	**102**	**690,668**	**690,770**
Provision / (recovery of provision) for impairment during 2012	19,468	46,387	65,855
Amounts written off during 2012 as uncollectible	(102)	(66,091)	(66,193)
Effect of exchange rate	-	(90)	(90)
Provision for impairment of other assets as at 31 December 2012	**19,468**	**670,874**	**690,342**
(Recovery of provision)/ provision for impairment during 2013	-	291,645	291,645
Amounts written off during 2013 as uncollectible	(19,468)	(83,942)	(103,410)
Effect of exchange rate	-	5,321	5,321
Provision for impairment of other assets as at 31 December 2013	**–**	**883,898**	**883,898**

The credit quality analysis of financial asset classified as other assets as at 31 December 2013 and 31 December 2012 has shown that all financial assets classified as other assets in the total amount of MNT12,662,284 (2012: MNT11,110,304) are current.

The aging analysis of impaired financial assets classified as other assets as at 31 December 2013 is as follows:

	Current MNT'000	Less than 1 month MNT'000	From 1 to 6 months MNT'000	From 6 to 12 months MNT'000	More than 1 year MNT'000	Total MNT'000
Receivables	947,484	478,919	1,256,340	85	682,901	**3,365,729**
Less: provision for impairment of other assets	(255,996)	-	-	-	(627,902)	**(883,898)**
Total financial assets classified as other assets	**691,488**	**478,919**	**1,256,340**	**85**	**54,999**	**2,481,831**

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

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

21. DEFERRED TAX ASSETS/(LIABILITIES)

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

	2013 MNT'000	2012 MNT'000
At 01 January	**3,298,482**	**1,022,526**
Recognized in statement of comprehensive income	-	-
Deferral of tax	(4,797,655)	2,275,956
At 31 December	**(1,499,173)**	**3,298,482**

Calculation of deferred tax is as follows:

	2013 MNT'000	2012 MNT'000
Tax effect of deductible temporary differences		
Revaluation of financial investment	1,347,850	1,003,938
Revaluation of currency forward contracts	-	316
Revaluation of currency swap contracts	(637,738)	-
Changes in fair value of embedded derivatives	51,483	103,914
Prepaid income	1,526,101	937,739
Deferred income	(5,247,586)	-
Loans and advances to customers-reversal of credit loss provision	753,159	667,236
Provision for guarantee and letter of credit	642,687	530,997
Property, plant and equipment-accelerated tax depreciation	64,871	54,343
Gross deferred tax assets	**(1,499,173)**	**3,298,482**
Tax effect of taxable temporary differences		
Loans and advances to customers-reversal of credit loss provision	-	-
Gross deferred tax liabilities	-	-
Total net deferred tax (liability)/asset	**(1,499,173)**	**3,298,482**

22. DUE TO OTHER BANKS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Due to other commercial banks	26,462,940	46,989,030

Amount due to other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks.

23. CUSTOMER ACCOUNTS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Government deposits		
current account	55,277,139	39,595,773
demand account	470,603	2,827,343
time deposits	31,036,744	213,063,171
Private sector deposits		
current account	398,905,639	365,579,066
demand account	18,020,627	9,780,602
time deposits	193,141,088	205,877,932
Individual deposits		
current account	97,763,417	81,319,799
demand account	358,282,276	351,181,560
time deposits	763,291,996	754,204,639
Other deposits		
current account	11,401,532	13,579,944
demand account	1,351,306	1,275,290
time deposits	232,492,126	18,392,128
	2,161,434,493	**2,056,677,247**

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

As at 31 December 2013, a term deposit of an individual in the amount of MNT91,687,065 thousand (2012: MNT245,552,385 thousand)was provided as collateral against loans to customers.

The amount due to a subsidiary amounting to MNT344,335 thousand (2012: MNT50,742 thousand) was eliminated in the Group's financial statements.

24. OTHER BORROWED FUNDS

		At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Borrowings from foreign banks and financial institutions /USD/		28,572,624	16,335,460
Borrowings from foreign banks and financial institutions /EUR/	(a)	12,464,871	5,032,154
Borrowings from foreign banks and financial institutions /CNY/		111,222	-
		41,148,717	**21,367,614**
Borrowed funds under Project /MNT/	(b)	982,982,824	83,279,011
Borrowed funds under Project /USD/		7,245,340	8,193,783
Borrowed funds under Project /EUR/		942,340	-
		991,170,504	**91,472,794**
		1,032,319,221	**112,840,408**

(a) Borrowings from foreign banks and financial institutions

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Borrowings from foreign banks and financial institutions /USD/	28,572,624	16,335,460
Borrowings from foreign banks and financial institutions /EUR/	12,464,871	5,032,154
Borrowings from foreign banks and financial institutions /CNY/	111,222	-
	41,148,717	**21,367,614**

The borrowings from foreign bank and financial institutions represent the interest-bearing borrowings with the maturity of one to 5 years.

(b) Borrowed funds under projects

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Projects		
Borrowings under Housing finance Project	1,765,185	2,376,779
Borrowings under SME development and natural environment protection	23,287,725	18,444,310
Borrowings under SME industry support fund	34,749,706	25,900,874
Borrowings under project for support to finished wool and cashmere producers	11,286,631	12,229,534
Borrowings under 40000 Housing Unit Development program	626,935	701,283
Borrowings under Fuel price Stabilization Sub-Program	25,803,963	25,803,963
Borrowings under Agriculture and Rural Development Project	3,914,988	3,548,188
Housing mortgage program	408,000,000	-
Project on promoting the construction sector	110,005,753	-
Project on renewing the cashmere technology	107,813,128	-
Project on producing woolen goods	71,638,904	-
Project on supporting milk and dairy products manufacturing	44,101,419	-
Project on constructing greenhouse farm	27,699,227	-
Project on supporting the sewing industry	21,493,794	-
Project on meat reserve	26,406,028	-
Project on coal reserve	24,061,726	-
Project on housing prices stabilization	15,608,641	-
Private sector development project loan-2, MNT	1,456,186	-
Project loan of KFB bank -983	5,124,633	-
Stabilizing prices of key commodities and products	1,734,230	-
Project on improving warehouse	7,737,245	-
To support development of intensive livestock	6,782,244	-
The Program on reserve cement and armature	9,099,837	–
Other borrowing under project	972,376	2,467,863
	991,170,504	**91,472,794**

24. OTHER BORROWED FUNDS (continued)

(b) Borrowed funds under projects (continued)

(i) Housing Finance Project Loan

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

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

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

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

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

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

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

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

(iii) Small and Medium Enterprises Development Fund

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

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

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

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

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

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

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

(v) 40,000 Housing Unit Development Program

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

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

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

(vi) Fuel Price Stabilization Project

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

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

(vii) Agriculture and Rural Development Project

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

(viii) Housing mortgage program

The Golomt bank was entered loan agreement with Bank of Mongolia dated on 14 June 2013 under with "Guidelines of finance housing mortgage" approved by Bank of Mongolia and clause 2 of article 4 and 13 of the law on Mongolian Central Bank. The purpose of this agreement is to indentify financing conditions for the purpose of establishing a stable housing finance system. The total amount of the loan is 408,000,000 thousand MNT and interest rate is at bears of 4%.

24. OTHER BORROWED FUNDS (continued)

(ix) Project on promoting the construction sector

The loan agreement dated on 25 December 2013 was entered between the Bank of Mongolia and Golomt bank according to the clause 2 of articles 4 and 13 of the law on Mongolia Central Bank for the purpose of improving supplies of construction and housing. The total amount of loan is 110,005,753 thousand MNT and loan term is up to 18 months. Loan interest rate is at bear of 7% annually.

(x) Chinggis Bond

Loan agreement dated on 15 August 2013 was entered between the Development Bank of Mongolia and Golomt bank under the regulations No.141 and 126 in 2013 approved by Government of Mongolia. The purpose of this agreement is the financing from Development Bank of Mongolia and its repayment for supporting milk and dairy products manufacturing, constructing greenhouse farm, woolen goods, supporting and sewing industry, renewing the cashmere technology.

A loan amount is 269,030,318,200 MNT and maturity date is 01 December 2017. The interest rate is at bears of 5.125 percent.

(xi) Project on meat reverse

The sub-loan agreement dated on 14 October 2013 was entered parties of Ministry of Agriculture and Light Industry, General Agency for Specialized Inspection, Golomt bank and AADM LLC according to the a memorandum of Understanding on "Joint implementation of Medium-term Program to Stabilize Prices of key Commodities and Products" signed by Bank of Mongolia and Government of Mongolia and regulation of "stabilizing prizes key commodities and products" approved by President of Bank of Mongolia, Minister of agriculture and industry resolution No.A-166/A-24.

The purpose of project to select manager that provide the meat needs of population Ulaanbaatar, Darkhan and Erdenet for 2014, financing and organizing the activities related to the meat producing, reversing and prepare processes the total 6 thousand tons meat for Ulaanbaatar or Block 1 project on HMMCSH/2014/02.

The maturity date is until 15 July 2014 and interest rate is at bears of 0.89%.

(xii) Project on coal reserve

The loan agreement dated on 05 September 2013 was entered between Bank of Mongolia and Golomt bank according to the program on "Prize stabilization of energy, preparing the winter and establish enough coal reserve" approved by President of Bank of Mongolia, Minister of Energy resolution No. A-148, 95 dated on 09 July 2013.

The purpose of this agreement is to control on process of sub-loan disbursement, to repay the loan amount to Bank of Mongolia according to the approved schedules, lending sub-loans to state property companies of energy sector. The loan term is a year.

(xiii) Project on housing prices stabilization

The sub-loan agreement dated on May 2013 was entered between the Bank of Mongolia and Golomt Bank according to the program of "Promoting the construction sector and stabilization of housing price" approved by President of Bank of Mongolia and Minister of Construction and Urban Development with regulation No.A-2/06 dated on 09 January 2013.

The purpose of this agreement is to control on process of sub-loan disbursement, to repay the loan amount to Bank of Mongolia according to the approved schedules, lending sub-loans for the purpose for domestic manufacturer on key construction materials sectors and transferring the financial resources to Golomt Bank under the program on promoting construction sector and housing price stabilization.

The loan term is up to 3 years and interest rate is at bears 2.5%.

(xiv) Private sector development project loan–2, MNT

The Agreement dated on November 12, 2007 between the Ministry of Finance, on behalf of International Development Association and Golomt Bank according to loan agreement No.4088-MOG of International Development Association for Private Sector Development. The amount of sub-loan to be provided by the Bank not exceed to the amount of sub-project. The principal amount of the loan shall be repaid in twenty/20/ years including a grace period of five /5/ years. Interest on the principal amount of the loan withdrawn and outstanding form time to time shall be payable by Golomt Bank at a fixed rate of 2%.

(xv) Project loan of KFB bank–983

The loan agreement dated on 08 June 2012 was entered between Bank of Mongolia and Golomt Bank under with "Loan, financing agreement" was entered between Government of Mongolia and Kreditanstalt Fur Wiederaubau Bank from Germany dated on 24 April 2002 and with "Sub loan agreement" was entered between Ministry of Finance and Bank of Mongolia dated on 17 January 2003.

The purpose of this agreement is investing in SME on private sector and long and short financing for current assets. The interest rate is at bears 10.5% for MNT and at bear 1.25% for EUR.

(xvi) Stabilizing prices of key commodities and products.

The sub-loan agreement dated on 14 January 2013 was entered between Bank of Mongolia and Golomt Bank according to the a memorandum of Understanding on "Joint Implementation of Medium-term Program to Stabilize Prices of key Commodities and Products" signed by Bank of Mongolia and Government of Mongolia and regulation of "Stabilizing prizes key commodities and products" approved by President of Bank of Mongolia, Minister of agriculture and industry resolution No.A-166/A-24.

The purpose of this agreement is to control the process of sub-loan disbursement, to repay the loan amount to Bank of Mongolia according to the approved schedules, lending sub-loans to flour manufacturer the financial resources for establish enough reverse. The loan term is until a year and interest is at bears of 0.89%.

(xvii) Project on improving warehouse and support development intensive livestock

The loan agreement dated on 18 November 2013 was entered between the Bank of Mongolia and Golomt bank according to program of "Stabilizing Prices of Key Commodities and Products" approved by Minister of Agriculture and Light Industry, President of Bank of Mongolia regulation A-166/A-24 and under with clause 2 of article 11 of the law of Central Bank.

The purpose of this agreement is to control on process of sub-loan disbursement, to repay loan to Bank of Mongolia according to the approved schedules, lending sub-loans for the purpose of improving warehouse and support development intensive livestock, transferring the financial resource to Golomt Bank under the program on improving warehouse and supporting development intensive livestock. The loan term is up to 36 months and interest rate is at bears of 0.89%.

(xviii) The program on reserve cement and armature

The sub-loan agreement dated on May 2013 was entered between the Bank of Mongolia and Golomt Bank according to the program of "Promoting the construction sector and stabilization of housing price" approved by President of Bank of Mongolia and Minister of Construction and Urban Development with regulation No.A-2/06 dated on 09 January 2013.

The purpose of this agreement to control on process of sub-loan disbursement, to repay the loan amount to Bank of Mongolia according to the approved schedules, lending sub-loans to the importer of cement and armatures and transferring the financial resources that eliminating seasonal reasons of construction materials (cement and armature) that required to import under the program on promoting construction sector and housing price stabilization.

The sub-loan term is until a year and interest rate is at bears 2.5%.

(i) Other projects

- Labor and Welfare Service to support employment

  The loan agreement in 7 may 2001 was entered between Bank of Mongolia and Golomt Bank accordance with regulation of "Guidelines for lending from revolving funds"" under the "Labor support project" of ADB approved by Minister of Labor and Social Welfare, President of Mongolia regulation No.57/593 dated on 15 January 2000. A loan amount is firstly 10 million MNT and second time 15 million MNT. The loan agreement term is up to one year and Bank decides the relending proceeds based on borrower's business scope and manufacturing process. The relending requirement is qualifying project which is borrower paid a loan on schedule and generate new job position. The balance of Loan as 31 December 2012 was 396.6 million MNT.

24. OTHER BORROWED FUNDS (continued)

(i) Other projects (continued)

- The agreement No. 3226-MOG dated on 17 November 1999 was entered between the Ministry of Finance, on behalf of International Development Association and Golomt Bank according to the development loan agreement of "Private Sector Development Project" between Government of Mongolia and International Development Association dated on 18 June 1999. The amount of sub-loan to be provided by the Bank not exceeding to the amount of sub-project. The principal amount of the loan shall be repaid in twenty/20/ years including a grace period of five /5/ years. Interest on the principal amount of the loan withdrawn and outstanding form time to time shall be payable by Golomt Bank at a fixed rate of 2%.

25. REPO AGREEMENT

The amount represents the liabilities acquired under two-day repo agreement from the Central Bank of Mongolia and the discount rate for this repo agreement is at 12.5 percent.

26. SUBORDINATED LOANS

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Subordinated convertible loan from Bodi International	16,901,223	-
Subordinated convertible loan from Stanhope Investments	41,359,950	34,691,374
	58,261,173	**34,691,374**

Subordinated convertible loan from Bodi International (Credit Suisse)

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

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

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

The loan was matured on 19 December 2012, at which date the loan was not repaid or converted into shares.

On 31 December 2013, the Amendment Agreement was signed by and between Golomt Bank and Bodi International LLC, a main shareholder of the Bank, on transfer of Credit Suisse convertible loan to Bodi International LLC. Accordingly, the transfer certificate was signed by Credit Suisse AG, Singapore Branch, Bodi International LLC and Golomt Bank on 08 January 2014 and Bodi International LLC, a main shareholder of the Bank purchased the convertible loan from Credit Suisse according to the Settlement and Transfer Agreement and Release dated 27 December 2013, upon acknowledgement of all payments made by Bodi International to Credit Suisse and agreed by the parties as full and final settlement of dispute.

According to the Amendment Agreement with Bodi International, the loan shall be repaid in full with the accrued interests on 31 December 2018 and this loan bears the interest at 6 percent per annum.

Subordinated convertible loan from Stanhope Investments

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

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

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

On 10 December 2013, Stanhope Investments issued a claim to High Court of Justice Queen's Bench Division Commercial Court, Royal Courts of Justice, through Macfarlanes LLP, its legal representative in London, to withdraw the loan principal and to demand the interests accrued, default interests and No IPO Premium because of breaches of certain clauses and provisions in Loan Agreement dated 08 June 2010.

On 05 February 2014, Golomt Bank, through Milbank Tweed Hadley & McCloy LLP, its legal representative in London, issued a defense against the claim above mentioned.

As of date of this report, no court proceeding was held and the Bank does not have any prospective loss from repayment of loans, interests and No IPO premiums.

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

27. DERIVATIVE FINANCIAL INSTRUMENT

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Subordinated loans	58,261,173	34,691,374
Derivative financial instruments	962,305	1,172,027

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

	Liability Component MNT'000	Embedded derivative component MNT'000	Total MNT'000
At 31 December 2013	58,261,173	962,305	**59,223,478**
At 31 December 2012	34,691,374	1,172,027	**35,863,401**

As at 31 December 2013 and as at 31 December 2012, the fair value of the equity and currency derivatives have been determined based on standard option pricing model with the difference recognised to profit or loss. The fair value of the embedded derivatives mainly came from the currency option as there is lack of available observable market data in Mongolia in particular related to the equity price, volatility of equity price and credit spread. Considerable number of inputs to the valuation technique came from the Bank specific input that might not reflect market expectations and measures of the risk-return factors inherent in the instrument. As a result the variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant and hence the management concluded that the fair value cannot be measured reliably.

28. CONTINGENT PAYABLES

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

29. OTHER LIABILITIES

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Payables	12,955,137	41,029,742
Foreign and domestic remittances held over	750,194	1,081,803
Clearing settlement held over	5,973,404	24,706,553
Subordinated loan matured	-	13,921,000
	19,678,735	**80,739,098**

30. DEFERRED REVENUE

	At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Deferred commission income *	6,104,405	3,750,955
Deferred interest income	524,360	758,925
	6,628,765	**4,509,880**

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

31. INCOME TAX PAYABLE

The amount represents the corporate income tax payable as at 31 December 2013 and 2012, respectively.

32. PREFERRED SHARES

Agreement on sales and purchase of preferred shares was entered by and between Mr. Zorigt ("the Investor") and Golomt Bank on 22 December 2013 in accordance with the shareholder's resolution on issuance of preferred shares dated 19 December 2013.

Under this agreement, total investment to preferred shares of the Bank amounts to USD15,000,000, which should be made in two installments (USD10 million is due by 25 December 2013 and USD5 million is due by 25 December 2014). As of 31 December 2013, total preferred shares amount to USD 10,000,000, which is equivalent to MNT16,388,100 thousand divided into 16,388,100 preferred shares.

These preferred shares have the term of 5 years, which can be extended twice, and bear the interest at 5 percent per annum on the outstanding balance of investment in preferred shares. The interests shall be paid on quarterly basis and at any time by the request of preferred shareholder, the preferred shares can be converted into ordinary shares.

33. SHARE CAPITAL AND SHARE PREMIUM

	2013		2012	
	Number of shares	Nominal value– MNT 1,000 MNT'000	Number of shares	Nominal value– MNT 1,000 MNT'000
Ordinary shares-Authorised	33,000,000	33,000,000	33,000,000	33,000,000
Balance at 1 January	**25,907,593**	**25,907,593**	**24,591,543**	**24,591,543**
Issued during the year	-	-	1,316,050	1,316,050
Balance at 31 December	**25,907,593**	**25,907,593**	**25,907,593**	**25,907,593**

Total share capital of the Bank consists of 25,907,593 (as of 31 Dec 2012: 25,907,593) ordinary shares at par value of MNT1,000 each as of 31 December 2013.

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

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

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

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

	SWISS–Mo Investment MNT'000	Employees MNT'000	Trafigura Beheer BV MNT'000	TOTAL MNT'000
At 01 Jan 2012	**22,274,449**	**70,425**	**–**	**22,344,874**
Share premium	-	45,486	19,931,938	19,977,424
At 31 Dec 2012	**22,274,449**	**115,911**	**19,931,938**	**42,322,298**
Share premium	-	-	-	-
At 31 Dec 2013	**22,274,449**	**115,911**	**19,931,938**	**42,322,298**

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

34. OTHER COMPONENTS OF EQUITY

		At 31 Dec 2013 MNT'000	At 31 Dec 2012 MNT'000
Share-based payment reserve	(a)	2,343,137	1,872,543
Available-for-sale investments reserve	(b)	166,958	203,213
Financial foreclosed asset reserve	(c)	3,116,008	(141,509)
Revaluation reserve	(d)	8,212,178	-
		13,838,281	**1,934,247**

(a) Share-based payment reserve

Share-based payment reserve comprises the fair value of options and performance share rights recognised as an expense. Upon exercise of options or performance share rights, any proceeds received are credited to share capital.

	2013 MNT'000	2012 MNT'000
At 01 January	**1,872,543**	**1,500,000**
Share-based option transaction	470,594	372,543
At 31 December	**2,343,137**	**1,872,543**

(b) Available-for-sale investment reserve

The amount represents the reserve for fair value adjustment of financial assets classified as available for sale.

	2013 MNT'000	2012 MNT'000
At 01 January	**203,213**	**262,407**
Fair value adjustment for AFS investments	(36,255)	(59,194)
At 31 December	**166,958**	**203,213**

(c) Financial foreclosed asset reserve

The reserve for financial foreclosed asset represents the amount of changes in fair value of financial assets foreclosed (held by the Bank to recover the impaired loan).

	2013 MNT'000	2012 MNT'000
At 01 January	**(141,509)**	**–**
Fair value adjustment for AFS investments	3,257,517	(141,509)
At 31 December	**3,116,008**	**(141,509)**

(d) Revaluation reserve

The revaluation reserve comprise of the surplus of property revaluation made at the end of accounting year.

35. RETAINED EARNINGS

According to the Mongolian legislation only accumulated retained earnings reflected in the Group's statutory financial statements may be distributed as dividends among the shareholders. As at 31 December 2013, the Group's retained earnings amounted to MNT173,488,603 thousands and the Bank's retained earnings amounted MNT173,390,689 thousands (2012: Group's MNT116,428,679 thousand and Bank's MNT116,534,085 thousand).

36. INTERESTS AND SIMILAR INCOME

	2013 MNT'000	2012 MNT'000
Cash and balances with central bank	36,332,908	19,127,774
Loans and advances to customers	233,978,358	166,605,608
Reverse repurchase agreements	728,508	496,522
Due from other banks	340,560	590,050
Investment held to maturity	19,565,835	13,425,061
	290,946,169	**200,245,015**

37. INTERESTS AND SIMILAR EXPENSES

	2013 MNT'000	2012 MNT'000
Customer accounts	(157,983,199)	(137,878,995)
Other borrowed funds	(21,902,985)	(1,901,780)
Due to other banks	(2,439,625)	(538,959)
Repurchase agreements	(91,642)	(683,440)
Subordinated loans	(2,277,820)	(2,121,798)
	(184,695,271)	**(143,124,972)**

38. PROVISION FOR IMPAIRMENT OF LOANS TO CUSTOMERS

	2013 MNT'000	2012 MNT'000
Corporate lending	25,771,676	7,388,738
SME lending	(144,237)	862,554
Consumer lending	1,832,542	285,246
Residential lending	(117,211)	69,224
	27,342,769	**8,605,762**

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

	2013 MNT'000	2012 MNT'000
Financial assets at fair value through profit or loss	2,550,950	4,484
Changes in fair value of embedded derivative	209,722	709,744
Changes in value of securities	(511,739)	(187,378)
	2,248,933	**526,850**

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

	2013 MNT'000	2012 MNT'000
Realized gains from /(loss on) foreign exchange	578,245	19,293,411
Unrealized gains from /(loss on) foreign exchange	37,586,759	(2,078,050)
Gains from disposal of assets	171,779	6,764
Recovery of provision for foreclosed properties	-	68,000
Dividends received	4,459	6,776
Other	181,521	115,167
	38,522,763	**17,412,068**

41. FEES AND COMMISSIONS INCOME

	2013 MNT'000	2012 MNT'000
Account service fees and commissions	3,768,845	3,160,765
Card related fees and commissions	7,604,382	6,941,368
Credit related fees and commissions	5,974,686	4,157,062
Remittance and other service fees	8,010,251	5,709,989
Brokerage and other service fee*	379,653	11,146
	25,737,817	**19,980,330**

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

42. FEES AND COMMISSIONS EXPENSES

	2013 MNT'000	2012 MNT'000
Bank service expenses	(1,895,602)	(1,669,002)
Card transaction expenses	(3,468,767)	(3,223,097)
Online transaction expense	(78,200)	(45,532)
	(5,442,569)	**(4,937,631)**

43. IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2013 MNT'000	2012 MNT'000
Financial investment		
Quoted equities	(1,005,420)	(1,040,666)

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

	2013 MNT'000	2012 MNT'000
Recoveries of bad debt expense	55,675	-
Provision for guarantee and LC impaired	(363,457)	(2,123,987)
Provision for other assets impaired	(289,785)	(60,299)
	(597,567)	**(2,184,286)**

45. OPERATING EXPENSES

	2013 MNT'000	2012 MNT'000
Staff costs (see below)	(27,415,872)	(18,704,902)
Depreciation and amortization	(5,490,839)	(3,910,319)
Professional services (security, communications, etc.)	(9,723,760)	(6,483,326)
Rental of premises	(7,544,237)	(4,947,957)
Expenses relating to maintenance of premises and equipment	(13,637)	(2,372,424)
Administrative expenses	(5,234,347)	(1,102,487)
Voluntary and mandatory insurance	(1,476,249)	(1,052,471)
Advertising and marketing	(2,474,930)	(1,940,098)
Taxes (other than income tax)	(368,611)	(220,019)
Amortisation of intangible assets	(831,648)	(563,621)
Donations	(33,860)	(88,989)
Entertainment	(905,181)	(443,887)
Loan collection expenses	(533,359)	(234,378)
Transportation	(1,106,094)	(901,411)
Travelling expenses	(491,929)	(726,091)
Utilities	(343,214)	(343,873)
Other	(3,195,839)	(1,499,763)
	(67,183,606)	**(45,536,016)**

Staff costs consist of:

	2013 MNT'000	2012 MNT'000
Salaries, wages and bonus	(23,408,140)	(15,311,075)
Contribution to social and health fund	(2,424,275)	(1,671,844)
Pension fund	(577,799)	(382,119)
Staff training	(399,481)	(415,898)
Staff benefits	(135,583)	(551,423)
Share-based payments (Note 33)	(470,594)	(372,543)

46. INCOME TAX EXPENSE

The Group and the Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group and the Bank are 10% (2012: 10%) for the first MNT3 billion (2012: MNT3 billion) of taxable income, and 25% (2012: 25%) on the excess of taxable income over MNT3 billion (2012: MNT3 billion). Interest income on domestic government bonds is not subject to income tax. Impairment losses for loans and advances are deductible for income tax purposes.

Corporate income tax of the Group consists of the following:

	2013 MNT'000	2012 MNT'000
Current income tax expense	(12,290,788)	(6,080,022)
Deferred taxation movement due to origination and reversal of temporary differences	(1,837,769)	(614,607)
Less: deferred taxation charged directly to other comprehensive income		
Total income tax expense for the year	**(14,128,557)**	**(6,694,629)**

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

	2013 MNT'000	2012 MNT'000
IFRS profit before taxation	**71,188,480**	**32,734,931**
Theoretical tax charge at the applicable statutory rate at 25 percent (2012: 25 percent)	17,797,120	8,183,733
Reconciliation at effective tax rate		
Effect of income subject to lower tax rate	(450,000)	(450,238)
Effect of income not subject to tax	(3,904,872)	(932,606)
Non-deductible expenses less non-taxable income	264,060	312,952
Deferred tax liabilities not realized	(1,415,520)	(1,033,603)
Net effect of deferred tax liability	1,837,770	614,391
Current income tax expense for the year	**14,128,557**	**6,694,629**

47. COMPONENTS OF OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2013 MNT'000	2012 MNT'000
Fair value adjustment of AFS financial investment	-	(1,206,313)
Impairment of available-for-sale financial investment	(36,255)	1,147,119
Revaluation surplus	8,212,178	-
Fair value adjustment of foreclosed properties	3,257,517	(141,509)
Net other comprehensive income	**11,433,440**	**(200,703)**

48. EARNINGS PER SHARE

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

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

	2013 MNT'000	2012 MNT'000
Net profit attributable to equity holders of the Group and the Bank	57,059,924	26,040,302
Interest convertible loans	2,212,643	1,911,505
Net profit attributable to equity holders of the Group and Bank adjusted for the effect of dilution	**59,272,567**	**27,951,807**

	2013	2012
	No. of shares	**No. of shares**
Weighted average number of ordinary shares for basic earnings per share	32,338,258	30,911,587
	MNT	**MNT**
Basic earnings per share	**2,284**	**1,091**
Diluted earnings per share	**1,833**	**904**

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

	2013	2012
Weighted average number of ordinary shares for basic earnings per share	25,952,492	25,614,757
Effect of dilution:		
Convertible loans	6,047,066	5,089,246
Share options	338,700	207,584
Weighted average number of ordinary shares adjusted for the effect of dilution	**32,338,258**	**30,911,587**

49. SHARE-BASED PAYMENTS

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

	2013 MNT'000	2012 MNT'000
Expense arising from equity—settled Share—based option transactions	470,594	372,543

49. SHARE-BASED PAYMENTS (continued)

Executives and Employees share-option plan

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

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

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

	2013		2012	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at the beginning of the year	792,100	4,768	498,150	3,834
Granted during the year	-	-	310,000	5,702
Exercised during the year	-	-	(16,050)	3,834
	792,100	**4,768**	**792,100**	**4,768**

The weighted average remaining contractual life for the share options outstanding at 31 December 2013 was 0.74 years (2012: 1.74 years).

The weighted average fair value of options granted during the year was MNT3,795 (2012: MNT3,795).

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

50. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2013 MNT'000	2012 MNT'000
Financial guarantees issued	35,940,688	54,297,834
Performance guarantees	165,607,635	131,108,157
Letters of credit	4,169,898	99,881,607
Less: provision for impairment of credit related commitments	(2,578,818)	(2,215,362)
	203,139,403	**283,072,236**
Undrawn credit lines	31,770,375	39,446,920
Total credit related commitments	**234,909,778**	**322,519,156**

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

The Bank issued bank guarantee for the leasing of 2 aircrafts to Hunnu Air LLC, a Mongolian Airline Company, and the Bank's commitment to this guarantee amounts to MNT19,651,899 thousand (the provision of MNT2,006,853 was provided to this guarantee) (2012: MNT16,539,150 and provision at MNT1,688,979).

The total commitment to individual borrower or guarantee shall not exceed 5 percent of total capital of the Bank, however, the guarantee issued to Hunnu Air exceeds this ratio by 0.95 percent (2.47 percent).

Subsequent to the reporting date, the guarantee issued by the Bank to Hunnu Air LLC has been transferred to Bodi International LLC as described in Note 57, Subsequent event.

51. RELATED PARTY

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

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

The outstanding balances at the year end and asset transactions with related parties for 2013 and 2012 are as follows:

	Directors and key management personnel		Other related parties	
	2013	**2012**	**2013**	**2012**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Loans to customers				
Loans to customers as at 1 January (gross)	9,540,034	324,658	14,375,425	15,790,758
Loans to customers issued during the year	863,239	9,029,986	33,387,807	16,007,290
Loans to customers repaid during the year	(9,296,344)	(129,589)	(19,677,558)	(17,520,418)
Exchange difference	124,551	314,979	(1,674,822)	97,795
Loans to customers as at 31 December (gross)	**1,231,480**	**9,540,034**	**26,410,852**	**14,375,425**

The outstanding balances at the year end and asset transactions with related parties for 2013 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
Loans to customers				
Loans to customers as at 1 January (gross)	1,036,589	9,540,034	13,338,836	23,915,459
Loans to customers issued during the year	820,543	863,239	32,567,264	34,251,046
Loans to customers repaid during the year	(374,187)	(9,296,344)	(19,303,371)	(28,973,901)
Exchange difference	-	124,551	(1,674,822)	(1,550,272)
Loans to customers as at 31 December (gross)	**1,482,945**	**1,231,480**	**24,927,907**	**27,642,332**

51. RELATED PARTY (continued)

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

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Loans to customers				
Loans to customers as at 1 January (gross)	877,323	324,659	14,913,435	16,115,417
Loans to customers issued during the year	384,230	9,029,985	15,623,060	25,037,275
Loans to customers repaid during the year	(224,964)	(129,589)	(17,295,454)	(17,650,007)
Exchange difference	-	314,979	97,795	412,774
Loans to customers as at 31 December (gross)	**1,036,589**	**9,540,034**	**13,338,836**	**23,915,459**

The outstanding balances at the year end and liability transactions with related parties for 2013 are as follows:

	Shareholders	Directors and key management personnel	Other	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Customer accounts				
Customer accounts as at 01 January 2013	3,694,789	554,614	1,758,113	6,007,516
Customer accounts received during the year	105,452,142	7,902,558	131,337,853	244,692,552
Customer accounts repaid during the year	(106,082,895)	(7,765,209)	(129,711,394)	(243,559,498)
Exchange difference	216,227	95,818	128,966	441,011
Customer accounts as at 31 December 2013	**3,280,263**	**787,781**	**3,513,538**	**7,581,581**

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

	2013	2012
	MNT'000	MNT'000
Guarantee		
Bank guarantees as at 01 January	16,539,150	-
Guarantee issued/exchange revaluation	3,112,749	16,539,150
Bank guarantees as at 31 December	19,651,899	16,539,150

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

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

Payments and remuneration to key management personnel in 2013 amounted to MNT1,098,857 thousand (2012: MNT706,750 thousand).

	2013		2012	
	Expenses	Accrued liability	Expenses	Accrued liability
	MNT'000	MNT'000	MNT'000	MNT'000
Short-term payments:				
- Salaries	899,848	-	609,312	37,230
- Short-term bonuses	65,240	-	27,075	-
- Other short-term payments	79,369	-	27,013	-
- Anniversary bonuses	54,400	-	43,350	-
Share-based payments:				
- Dividends				
Total	**1,098,857**	**–**	**706,750**	**37,230**

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Below is the estimated fair value of the Group's financial instruments as at 31 December 2013 and 31 December 2012:

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets				
Cash and cash equivalents	310,932,590	310,932,590	186,730,836	186,730,836
Mandatory cash balances with the Central Bank	259,809,543	259,809,543	239,329,820	239,329,820
Due from other banks	159,657,425	159,657,425	214,670,056	214,721,585
Loans to customers	2,199,227,860	2,199,227,860	1,427,851,635	1,427,851,635
Financial assets				
-available for sale	7,562,165	3,194,738	5,104,319	1,778,566
- at fair value through profit or loss	1,111,389	184,555	935,560	520,463
- held-to-maturity	735,011,919	731,014,385	402,462,679	398,111,870
Other receivables	11,603,553	11,603,553	10,132,834	10,132,834
Financial liabilities				
Due to other banks	26,462,940	26,462,940	46,989,030	46,989,030
Customer accounts	2,161,434,493	2,161,434,493	2,056,677,246	2,056,677,246
Borrowed funds	1,032,319,221	1,032,319,221	112,840,408	93,910,933
Derivative financial instruments	962,305	962,305	1,172,027	1,172,027
Subordinated loans	58,261,168	58,261,168	34,691,374	34,691,374
Other payables	19,621,467	19,621,467	80,739,098	80,739,098
Repo agreement	167,154,900	167,154,900	-	-

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. The Group's management believes that the fair values of due from other banks as at 31 December 2013 and 31 December 2012 do not materially differ from respective carrying amounts. This is primarily due to the short-term nature of the investments.

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

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

Due to other banks. The fair value of due to other banks maturing in less than 1 month approximates the carrying amount due to their relatively short-term maturity. The fair value of due to other banks maturing in more than 1 month is the present value of the estimated future cash flows discounted at the respective year-end market rates. The Group believes that fair values of due to other banks as at 31 December 2013 and 31 December 2012 do not materially differ from respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

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

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

Below is the fair value hierarchy of financial assets as at 31 December 2013 and 2012. Level 1 includes financial assets which are traded in an active market, whose fair values are measured based on market quotations. Level 3 includes financial assets whose fair value is determined based on judgment or fair value techniques for which any significant input is not based on observable market data.

Below is the fair value hierarchy of financial assets as at 31 December 2013.

	Level 1	Level 2	Level 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets				
Derivative financial instrument				
Forward foreign exchange contract		2,550,950	-	2,550,950
Financial investment held-for-trading				-
Quoted security	184,554			184,554
Financial investments available-for-sale				-
Unquoted equities	-	-	2,398,095	2,398,095
Quoted security	796,643	-	-	796,643
Total	**981,197**	**2,550,950**	**2,398,095**	**5,930,242**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	962,305	962,305
Total	**–**	**–**	**962,305**	**962,305**

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

	Level 1	Level 2	Level 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets				
Derivative financial instrument				
Forward foreign exchange contract		3,220	-	3,220
Financial investment held-for-trading				-
Quoted security	520,463			520,463
Financial investments available-for-sale				-
Unquoted equities	-	-	679,271	679,271
Quoted security	1,099,295	-	-	1,099,295
Total	**1,619,758**	**3,220**	**679,271**	**2,302,249**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	1,172,027	1,172,027
Total	**–**	**–**	**1,172,027**	**1,172,027**

53. RISK MANAGEMENT

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

53. RISK MANAGEMENT (continued)

53.1 Credit risk

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

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

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

The Group's maximum exposure to credit risk is primarily reflected in the carrying amount of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities, as described in Note 53, Risk Management.

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

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Note 53, Risk Management.

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

53.2 Market risk

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

53.3 Currency risk

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

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

Objectives and limitations of the VaR Methodology

The Group and the Bank uses three VaR methods which are the Delta Normal, the Monte Carlo Simulation and the Historical Simulation models to assess possible changes in the foreign currency portfolio based on historical data from the past one year. The VaR models are designed to measure foreign currency risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in foreign exchange and assumes that future exchange rate movements will follow a normal statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large foreign exchange moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual foreign currency results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Foreign currency risk positions are also subject to regular stress tests to ensure that the Group and the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Group and the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current foreign currency open positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Group and the Bank's foreign currency risk management, VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The model is supplementary to the corresponding risk management requirements of the Group and the Bank of Mongolia.

	Delta Normal	Monte Carlo	Historical Simulation
	MNT'000	**MNT'000**	**MNT'000**
2013 - 31st December	106,624	96,578	141,397
2013 - Average Daily	515,412	471,143	621,404
2013 - Highest	2,055,956	2,254,768	2,709,669
2013 - Lowest	10,201	10,507	11,185
2012 - 31st December	114,443	118,334	129,954
2012 - Average Daily	140,253	141,948	183,030
2012 - Highest	561,410	648,023	740,283
2012 - Lowest	14,366	14,132	16,130

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

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period if all other conditions remain unchanged.

53. RISK MANAGEMENT (continued)

53.3 Currency risk (continued)

A reasonably possible change in foreign exchange rate by currency is determined based on the analysis of maximal fluctuations in foreign exchange rates for December 2013. The analysis of foreign exchange rate fluctuations for the year 2013 showed that a reasonably possible fluctuation in the USD exchange rate as at 31 December 2013 could be 1.2%, and a reasonably possible fluctuation in exchange rate of EUR and other currencies as at 31 December 2013 could be 1.4%.

	At 31 December 2013	
	Effect on profit before taxation	**Effect on equity**
USD appreciation by 1.2%	-243,583	451,139
USD depreciation by 1.2%	243,583	-451,139
EUR appreciation by 1.4%	-29,676	-29,676
EUR depreciation by 1.4%	29,676	29,676
Other currencies appreciation by 1.8%	244,036	244,036
Other currencies depreciation by 1.8%	-244,036	-244,036

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used at the end of the reporting period if all other conditions remain unchanged.

A reasonably possible change in foreign exchange rate by currency is determined based on the analysis of maximal fluctuations in foreign exchange rates for December 2012. The analysis of foreign exchange rate fluctuations for the year 2012 showed that a reasonably possible fluctuation in USD exchange rate as at 31 December 2012 could be 0.2%, and a reasonably possible fluctuation in foreign exchange rate of EUR and other currencies as at 31 December 2012 could be 0.9% and 0.5%.

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

53.4 Liquidity risk

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

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

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

	2013	2012
At 31 December	43.33%	41.06%
Average during the period	42.81%	36.00%
Highest	46.62%	41.40%
Lowest	39.84%	32.30%

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

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

The table below shows the liabilities as at 31 December 2013 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the statement of financial position, which are based on discounted cash flows.

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

The table below shows the maturity analysis of financial instruments as at 31 December 2013:

	Less than one month MNT'000	**One to three months MNT'000**	**Three to six months MNT'000**	**Six months to one year MNT'000**	**One to 5 years MNT'000**	**Over 5 years MNT'000**	**Total MNT'000**
Assets							
Cash and cash equivalents	310,932,806	-	-	-	-	-	310,932,806
Mandatory cash balances with the Bank of Mongolia	259,809,543	-		-	-	-	259,809,543
Due from other banks	159,160,430	-	496,995	-	-	-	159,657,425
Financial investments	559,648,555	54,411,220	15,034,786	55,847,076	42,277,430	7,174,610	734,393,677
Loans and advances to customers	118,916,807	135,424,462	232,417,858	357,410,132	917,705,369	437,353,232	2,199,227,860
Other Assets	16,213,331	992,438	3,073,951	57,127	6,764,151	42	27,101,040
Total financial assets	**1,424,681,472**	**190,828,120**	**251,023,590**	**413,314,335**	**966,746,950**	**444,527,884**	**3,691,122,351**
Liabilities							
Due to other banks	2,863,898	16,608,306	4,674,903	2,315,833	-	-	26,462,940
Due to customers	831,123,716	349,014,721	204,690,522	328,352,704	305,043,532	143,209,298	2,161,434,493
Derivative financial investment	-	-	-	-	962,305		962,305
Borrowed funs	24,202,657	185,668,393	276,225,212	121,436,433	391,157,140	33,629,386	1,032,319,221
Subordinated loans	507,272	(23,886)	16,524,811	(56,795)	41,309,771	-	58,261,173
Repo agreement	167,154,900						167,154,900
Other payable	**22,350,908**	**2,642,355**	**512,357**	**710,244**	**3,726,042**	**1,157,988**	**31,099,894**
Total financial liabilities	**1,048,203,351**	**553,909,889**	**502,627,805**	**452,758,419**	**742,198,790**	**177,996,672**	**3,477,694,926**
Net Liability Gap	**376,478,120**	**(363,081,769)**	**(251,604,215)**	**(39,444,083)**	**224,548,161**	**266,531,211**	**213,427,426**
Cumulative Gap		**13,396,351**	**(238,207,863)**	**(277,651,946)**	**(53,103,786)**	**213,427,426**	

53. RISK MANAGEMENT (continued)

53.4 Liquidity risk (continued)

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

	Less than one month MNT'000	One to three months MNT'000	Three to six months MNT'000	Six months to one year MNT'000	One to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Assets							
Cash and cash equivalents	186,730,836	-	-	-	-	-	186,730,836
Mandatory cash balances with the Bank of Mongolia	239,329,820	-	-	-	-	-	239,329,820
Due from other banks	214,786,623	-	30,308	-	-	-	214,816,931
Financial investments	232,018,956	109,682,642	10,577,992	31,760,069	14,642,745	1,728,496	400,410,900
Loans and advances to customers	110,635,603	193,109,334	116,415,150	322,640,052	509,063,408	175,988,090	1,427,851,635
Other Assets	11,827,139	2,776,950	138,880	1,473,633	265,622	3,307,126	19,789,349
Total financial assets	**995,328,976**	**305,568,926**	**127,162,329**	**355,873,753**	**523,971,774**	**181,023,713**	**2,488,929,471**
Liabilities							
Due to other banks	609,220,209	313,203,670	313,075,630	396,438,820	294,129,873	130,609,045	2,056,677,247
Due to customers	27,717,145	2,436	12,850,810	6,418,639	-	-	46,989,030
Derivative financial investment					1,172,027		1,172,027
Borrowed funs	472,379	467,576	1,885,410	40,352,912	24,193,960	45,468,171	112,840,408
Subordinated loans	(236,470)	-	-	125,344	34,802,500	-	34,691,374
Other payable	67,850,069	2,355,107	14,643,568	878,579	1,689,003	409,227	87,825,553
Total financial liabilities	**705,023,332**	**316,028,789**	**342,455,418**	**444,214,294**	**355,987,363**	**176,486,443**	**2,340,195,639**
Net Liability Gap	**290,305,643**	**(10,459,864)**	**(215,293,088)**	**(88,340,540)**	**167,984,411**	**4,537,271**	**148,733,833**
Cumulative Gap		**279,845,780**	**64,552,691**	**(23,787,849)**	**144,196,562**	**148,733,833**	

The table below shows the maturity analysis of financial liabilities as at 31 December 2013:

Financial Liabilities	On demand and less than 1 month MNT'000	From 1 to 6 months MNT'000	From 6 to 12 months MNT'000	From 1 to 5 years MNT'000	More than 5 years MNT'000	Total MNT'000
As 31st December 2013						
Due to banks	2,798,048	21,621,000	2,401,870	-	-	26,820,918
Due to customers	1,290,420,511	538,255,654	327,055,264	58,722,199	-	2,214,453,628
Borrowed funds	4,854,515	448,599,805	149,370,458	475,556,685	34,489,057	1,112,870,520
Subordinated loans	507,272	1,156,036	1,139,317	59,415,720	-	62,218,345
Repurchase agreement	167,154,900	-	-	-	-	167,154,900
Total	**1,465,735,246**	**1,009,632,495**	**479,966,909**	**593,694,604**	**34,489,057**	**3,583,518,311**

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

Financial Liabilities	On demand and less than 1 month MNT'000	From 1 to 6 months MNT'000	From 6 to 12 months MNT'000	From 1 to 5 years MNT'000	More than 5 years MNT'000	Total MNT'000
As 31st December 2012						
Due to banks	27,717,145	13,246,024	6,518,490	-	-	47,481,659
Due to customers	1,034,907,771	614,493,247	400,271,797	66,379,388	-	2,116,052,203
Borrowed funds	654,262	2,743,680	15,697,659	61,077,395	44,499,493	124,672,489
Subordinated loans	-	1,139,448	825,620	37,460,128	-	39,425,196
Total	**1,063,279,178**	**631,622,399**	**423,313,566**	**164,916,911**	**44,499,493**	**2,327,631,547**

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

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

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

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

53.5 Interest rate risk

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

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

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

53. RISK MANAGEMENT (continued)

53.5 Interest rate risk (continued)

At 31 December 2013	Change in basis points	Sensitivity of net interest income
		MNT'000
EUR	120	36,915
USD	120	-739,075
MNT	120	-14,024
EUR	-120	-36,915
USD	-120	739,075
MNT	-120	14,024
At 31st December 2012		
EUR	120	-13,364
USD	120	-822,398
MNT	120	-102,289
EUR	-120	13,364
USD	-120	822,398
MNT	-120	102,289

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

	At 31 Dec 2013	At 31 Dec 2012
	MNT'000	MNT'000
Cash on hand and cash with Central Bank	570,742,349	426,060,656
Due from other banks	159,657,425	214,816,931
Treasury Bills of the Bank of Mongolia	549,098,115	247,402,729
	1,279,497,889	**888,280,316**
Less: Minimum reserve with The Bank of Mongolia not available to finance the Group and the Bank's day to day operations	(259,809,543)	(239,329,820)
Total cash and cash equivalents recognized in the statement of cash flows	**1,019,688,346**	**648,950,496**

55. CAPITAL ADEQUACY

The Bank's capital management has the following objectives: to observe the capital requirements established by the CBoM, to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a minimum core capital adequacy ratio of 8% (2012: 8%) and risk weighted capital ratio of at least 14% (2012: 13%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Central Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Management of the Bank and Chief Financial Officer.

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

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

	Bank	
	2013	2012
Core capital	12.57%	11.22%
Risk weighted capital ratio	16.71%	13.25%

	Bank	
	2013 MNT'000	2012 MNT'000
Tier I Capital		
Ordinary shares	25,907,593	25,907,593
Share premium	42,322,298	42,322,298
Retained earnings	173,390,689	116,534,085
Other components of equity	5,626,103	1,934,247
Total Tier I Capital	**247,246,683**	**186,698,223**
Tier II Capital		
Subordinated loans	57,893,500	34,802,500
Preferred shares	16,388,100	-
Revaluation reserve	8,212,178	-
Total capital/capital base	**82,493,778**	**34,802,500**
	329,740,461	**221,500,723**

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

	At 31 December 2013		At 31 December 2012	
	Assets	Risk weighted assets	Assets	Risk weighted assets
	MNT'000	MNT'000	MNT'000	MNT'000
0%	1,366,347,874	-	723,655,847	-
20%	173,048,579	34,609,716	321,330,367	64,266,073
50%	673,567,458	336,783,729	388,628,910	194,314,455
70%	558,624,590	391,037,213	-	-
100%	1,200,515,716	1,200,515,716	1,435,724,289	1,435,724,289
150%	11,251,080	16,876,620	9,776,388	14,664,583
	3,983,355,297	**1,979,822,994**	**2,879,115,801**	**1,708,969,400**

56. CONTINGENCY

The Bank received the claim at the judge court in London raised on litigation by Stanhope Investments on 10 December 2013 and the Claimant claimed USD35,393,776 in total, which is sum of principal before maturity, interests accrued, default interest and No IPO premium in regards with breaches of certain provisions of US$25 million Convertible Loan Agreement entered between Stanhope Investments and Golomt Bank on 08 June 2010. The Bank issued its Defense against this claim through its legal firm, Milbank, Tweed, Hadley &McCloy LLP headquartered in London on 05 February 2014.

It is contingent that the amount claimed by Stanhope Investments may be payable by the Bank in the case of loss in court proceedings.

57. SUBSEQUENT EVENT

Subsequently to the reporting date, the guarantee issued by the Bank for Hunnu Air LLC (Mongolian Airlines Group LLC), a Mongolian airline company, in accordance with the deed of guarantee dated 26 January 2012 was transferred to Bodi International, a major shareholder of the bank, through the termination of deed of guarantee 1706 and 1750 signed by Hunnu Air LLC, Wells Fargo Bank Northwest, National Association on 22 February 2014. Accordingly, Golomt Bank as Guarantor has been released and discharged from all of its duties, obligations and liabilities pursuant to Deed of Guarantee.

58. COMPARATIVE FIGURES

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

59. 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.