GOLOMT BANK 20 Years 1995-2015

ANNUAL REPORT | 2014

VISION MISSION

Vision

The Mongolian global bank.

Mission

We add value to people through best banking conducts.

CONTENTS

MESSAGE FROM THE CHAIRPERSON

This year marks the 20th anniversary of our establishment as one of the first private commercial banks in Mongolia. We would like to express our sincere gratitude and respect for the generation of bankers whose hard work contributed to the success of Golomt Bank. As of 2014, the Bank is not only an important institution in the financial sector but the whole society as well.

Dear shareholders, valued customers, partners, and colleagues

My heartfelt greetings to you all on the 20th anniversary of Golomt Bank founding as one of the first private commercial banks in Mongolia.

Performance in 2014

The dedication and professionalism of our employees resulted in profits before taxes of MNT 64.3 billion, a return on equity of 19.1 percent and a 19 percent increase in Golomt's capital which is now MNT 393.7 billion. We have successfully overcome all the challenges we faced in 2014, like rafters challenging the rapids, and improved our business model in spite of a slowdown in economy. We believe that a stronger Golomt Bank will emerge from these efforts.

Responding to new challenges

The Mongolian economy experienced unprecedented growth during the last few years. This economic environment enabled us to increase significantly our banking assets, strengthen our competitive advantage and hire new personnel. These developments assisted our customers in seizing and realizing new opportunities in this dynamic economic environment. The Board of Directors led the whole process by improving the Bank's organizational structure that was designed to enhance operational quality, increase effectiveness and improve accountability. In line with our strategic priorities, we focused on business lines and appointed a president for retail banking and our marketing arm, and new senior executive vice presidents in charge of corporate banking, investment banking, custodian, and brokerage services. In addition, we have improved the current internal auditing system to a risk-based approach consistent with international best practices.

Board and governance changes

The strategic vision and effective governance of the Bank depend on the breadth and depth of experience of our Board of Directors. We constantly strive to seek people with new skills and experience to complement those on the Board.

Mr.Antonio Lopez Abello joined the Board as an independent member in March 2014. He is a partner and a CEO of a Singapore-based consulting firm, Turms Advisors. As an investment banker and a lawyer, he brings a wealth of experience gained through investment banking, such as Credit Suisse, Goldman Sachs, and BNP Paribas to the Board. His skills will complement the diverse background and expertise of the Board. He will be a new valued member of the Risk Management and Audit committees.

20th anniversary

This year marks the 20th anniversary of our establishment as one of the first private commercial banks in Mongolia. We would like to express our sincere gratitude and respect for the generation of bankers whose hard work contributed to the success of Golomt Bank. As of 2014, the Bank is not only an important institution in the financial sector but the whole society as well.

Looking forward

We will continue to adapt to the changing business environment, build on our achievements, and implement the changes and reforms initiated in 2014. Moreover, we will try to stay ahead of market developments. We wish not only to be able to identify emerging opportunities but also create new ones and execute them in a way that brings concrete results. Our strategic priority is to become a trusted partner with our customers in realizing their full potential.

We will improve the execution of our strategy and focus on economic growth driving development, supporting investment projects in 2015. In addition, we will direct our efforts at refining risk management; servicing our customers with competitively priced products; and coordinate the Bank's internal system of control with the new structure. We have no doubt that with our experience, combined with the support of our customers and partners, bank will achieve the desired results.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our staff for their hard work, dedication, and commitment that contributed to our success in 2014. I am very grateful to our shareholders, partners, and customers for placing their trust in us, to our staff and my fellow colleagues on the Board for their continued support and cooperation. I wish you the best in all your future endeavors.

Sincerely,

Ch. Munkhtsetseg
Chairperson

MESSAGE FROM THE CEO

Golomt Bank, which was established 20 years ago, has grown to become a sustainable institute and the leader in the banking sector of Mongolia with good corporate responsibility and rich banking experience. Moreover it has become a well-known brand internationally.

To our esteemed Customers, Shareholders, and Colleagues

It is my great pleasure to report to you on Golomt Bank's 2014 performance and the 20th year of our history and success.

Mongolia's economic growth slowed down in 2014 but the Bank implemented new nationwide programs and projects, encouraged investment in expanding the country's productive capacity, and donated funds for projects compatible with our corporate social responsibility policy.

Chingis Bond proceeds of MNT 190 billion were used by the Bank to finance new investments in the dairy, wool, cashmere, greenhouses and garment sectors. The capacity of these sectors was increased by 50 to 200 percent, and 1,600 new jobs were created.

Golomt Bank cooperated with Mongolian government and the Bank of Mongolia to implement its "price stabilization" program for the economy by lending MNT 82 billion to national corporations. One result was the provision of 35 percent of Mongolia's annual fuel demand and 43 percent of demand for meat.

The Bank has been actively engaged in the government's "8 ± 1 percent Housing Mortgage Program" which is supported by the Bank of Mongolia. It was implemented in June 2013, and our Bank accounted for a 28 percent share of the Mongolian mortgage market. A total of twenty-eight apartment complexes were built by refinancing from the Bank, and this enabled 23,000 households (80,000 citizens) to live in a new apartment.

In 2014, the Bank introduced new technologies in the financial market which were able to give our customers many new products and services.

Golomt Bank has successfully integrated core banking system in collaboration with a leading IT systems integrator, Infosys Corporation. The project was the first of its kind in Mongolia. The main advantage of the system named the "Finacle" lies in its advanced ability to process core banking activities plus the customer relationship management, treasury, trade finance, wealth management, internet and mobile banking and our debit card activities. By integrating the Finacle system with our operations, the bank will gain significant improvements in its operational efficiency, quality and reliability, be compliant with the international standards and also deliver reliable and efficient services to their customers.

In 2008, Golomt Bank partnered with American Express and in 2014 the Bank became the first and only American Express-branded card issuer in Mongolia. Also, the Bank became the first bank with an Accreditation of Custodian service in Mongolia and introduced Western Union service on internet banking and Internet Trading system (Golomt Securities LLC) into the market.

Golomt Bank expanded its financial and trade cooperation

with Raiffeisenbank, VTB, China Minsheng Bank, the Bank of Inner Mongolia, Nordea Bank, Credit Agricole, BNP Paribas, Hungarian EXIM Bank, SACE, Banco Popolare di Vicenza, Unicredit, Intesa Sanpaola, Hana Bank, Bank Gospodarstwa Krajowego, KUKE, Mashreq Bank, and we became a member of the Asian Financial Cooperation Association (AFCA) in 2014. This success not only indicates to the world trust and confidence in the Bank but also it has created favorable financing opportunities for our customers.

To summarize the main financial performances, Golomt Bank's total assets increased by 8 percent and reached

MNT 4.1 trillion. The net profit reached MNT 49.8 billion, and preferred shares equal to USD 5 million was issued increasing total capital by 19 percent to MNT 394 billion.

The total amount of deposits and savings increased to MNT 2.23 trillion at the end of the financial year. In terms of market share of deposits and savings, the Bank maintained 22.1 percent of the Mongolian banking system and kept its leading position in this sector.

Golomt Bank has actively cooperated with the projects and programs implemented by Mongolian government and the Bank of Mongolia. It contributed to target economic sectors greatly and increased the source of investment funds to MNT 1 trillion. The net loan portfolio increased by MNT 263 billion or 12 percent reaching MNT 2.5 trillion. The Bank accounts for 20.2 percent of total net loans in the Mongolian banking system.

Golomt Bank, which was established 20 years ago, has grown to become a sustainable institute and the leader in the banking sector of Mongolia with good corporate responsibility and rich banking experience. Moreover it has become a well-known brand internationally.

In past years, Golomt Bank provided sustainable contribution to the economy with its support for local businesses and the introduction of best-practice services into the market.
The Bank will continue to keep pace with globalization trends, introduce better financial products and service to our customers.

I would like to express my sincere gratitude and respect to our forebears whose hard work has made Golomt Bank an important institution in the financial sector and benefitted the whole society as well.

My heartfelt greetings to you all on the 20th anniversary occasion of Golomt Bank, I would like to wish you all the best of luck.

Sincerely,

G. Ganbold

Chief Executive Officer

THE BANK IN 20 YEARS

OUR CONTRIBUTIONS TO THE COMMUNITY

EDUCATION SCHOLARSHIPS

Golomt Bank first initiated a Student Scholarship Program back in 2002 and had built a tradition of organizing Students' Science Conference ever since, conducting

the event for the 12th consecutive year in 2014

the program issued scholarships of over 1 billion MNT

to 1300 students

404 students have conducted Scientific research

FINANCING IN HOUSING MARKET

Golomt Bank initiated mortgage financing in 2004, another major program with paramount importance to the social economic development of the country. Currently, the Bank possesses 30% of total mortgage financing in Mongolia, thereby accounting for the largest share of investment made for the purchase of residences.

Total number of mortgagors 23 000

Individuals gained access to apartment housing 80 000

Aggregate loan portfolio 700 billion MNT

FINANCIAL INVESTMENTS IN THE AGRICULTURAL SECTOR

COVERED 17 PROVINCES

140 PROJECTS

190 financed billion MNT

1600 jobs created

FINANCING IN THE ROAD SECTOR

A total of 3,804 km long road had been constructed

GOLOMT BANK FINANCED

1667 KM OF THE ROAD PROJECT

The Bank submitted tax payment to the state budget totaling 100 billion MNT

80 billion MNT through corporate income tax

20 billion MNT as Health and Social Security Insurance

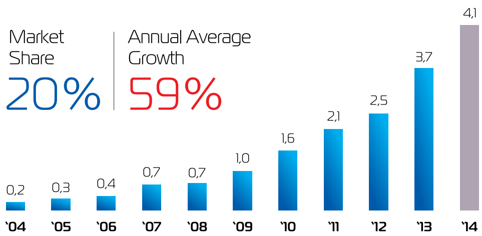
FINANCIAL PERFORMANCE

Since its inception in 1995 with an established equity of only MNT 436 million, the Bank has achieved consistent growth and strong financial performance over the years. It is now a major financial institution with an equity capital of MNT 393 billion and assets of MNT 4 trillion that equals to fifth of the Gross Domestic Product (GDP) of Mongolia.

TOTAL ASSETS

in trillion MNT

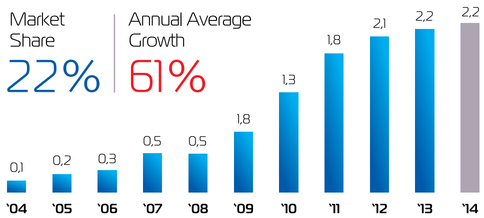
Market Share 20% | Annual Average Growth 59%



TOTAL DEPOSITS

in trillion MNT

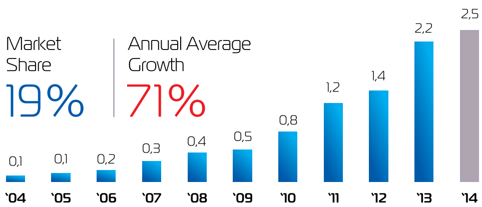
Market Share 22% | Annual Average Growth 61%



NET LOANS

in trillion MNT

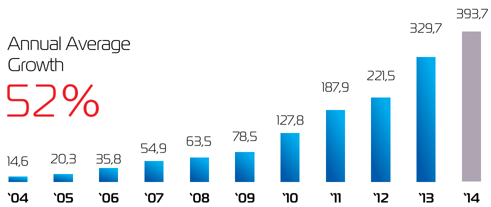
Market Share 19% | Annual Average Growth 71%



TOTAL EQUITY

in million MNT

Annual Average Growth 52%



HUMAN RESOURCE ACHIEVEMENTS

TOTAL EMPLOYEE COUNT

1995 | 2014
4 | 1862

4000 **peoples had worked** In the Bank during the 20 years

Net profit per employee **28 million MNT**

AS OF 2014

Employees with local **Bachelor's degree** 75%

Employees with local **Master's degree** 4,7%

Employees with degrees from overseas university 10,3%

Total training expenditure 508 million MNT

Employees attended training abroad 22 people 904 hours

Employees attended in-house training 525 people 28 272 hours

Employees attended third party training 1051 people 862 hours

Total number of employees attended training 1598 people 37 792 hours

NOTABLE FINANCED PROJECTS

THE VERY FIRST IRON ORE WET PROCESSING PLANT

A Hong Kong invested Focus Metal Mining Corporation collaborated with Golomt Bank to finalize an investment project, undertaking a major construction of the very first iron ore wet processing plant facility at the site of Khudagbaishint mine, Burenkhangai Sum area of Bulgan province.

With the completion of module, the facility will have a capacity to produce and export 300 000 tons of 66 percent concentrate iron ore to China. Adding to this facility it will also mine 600 000 tons of iron ore from the Khudagbaishint mine site.

With full capacity, the processing plant will be able to output 1.9 million tons of wet iron ore within a time span of 5 years, which should result in revenue of USD 228.2 million.

GOLOMT BANK CARRIES OUT 95 percent OF TOTAL LOCAL AIRLINE TRANSACTIONS ALONE

The Switzerland-based International Air Transport Association (IATA) officially started its business in Mongolia in 2009. The Bank has provided financial services to the company, such as clearing services, since its inception.

A total of thirteen agent companies and six airline operators are cooperating with the IATA and the Bank is providing clearing and settlement services to these companies.

TAYANNUUR MINE NOW HAS THE CAPACITY TO EXPORT 2 MILLION TONS OF RAW IRON ORE

Since 2008, Altain Khuder LLC had been undertaking mining operations in Tayannuur mine site, located in Tseel sum of Govi-Altai province. With Golomt Bank's financing ore mines, processing plants, road networks of the mine site have been enhanced for uninterrupted mining operations. Tayannuur mine produces and exports around 2 million tons of raw iron ore and accounts for 20 percent of the total iron production of the country.

MECHANIZED DAIRY PROCESSING COMPLEX – FOR THE FIRST TIME IN MONGOLIA

Within the context of supporting domestic producers of the country, Golomt Bank had issued Chinggis Bond financing to Suu JSC. The financing provided by the Bank allowed the company to establish the largest dairy production complex, not seen in the country for the last 20 years.
The Goldstein breed dairy cows imported from Czech Republic by Suu JSC can produce 7500-14000 liters of milk through 365 days of the year, increasing the production of the facility to 5 tons per day. The company had a capacity to provide dairy products to 80 percent of the city's populace, but with the integration of this new facility Suu JSC can now provide fresh dairy products to the whole of Ulaanbaatar city's populace all year round.

DRIED MILK PRODUCTION – FOR THE FIRST TIME IN MONGOLIA

Investing in Excellence, Golomt Bank had partnered with Milko, a daughter company of Teso LLC, to successfully finalize a dairy product processing facility for dried milk commodities and is ready for the opening of the facility. With a production capacity of 12 tons, the dairy facility can now supply all domestic demand for dried milk consumption while also having the capacity to export Made in Mongolia labeled products to overseas markets.

INTRODUCED INSULATED THERMAL PACKAGING TECHNOLOGY FOR THE FIRST TIME IN MONGOLIA

Reflecting the successful cooperation of Golomt Bank and Vitafit, a national leader of beverage products, a new ACF facility had been constructed in 2008 to introduce the very first insulated thermal packaging technology. Furthermore, the adoption of German made Krones packaging lines in 2013 allowed the company to produce unique products such as Milk drink.

SOLIDIFIED THE FOUNDATION FOR THE SUCCESS OF OYU TOLGOI PROJECT

As a company bearing the duty of maintaining the uninterrupted, continued operation of the Thermal Power Plant of Oyu Tolgoi Project, Khasu-Megawatt LLC collaborated with Golomt Bank to construct a 2.5km long heating network line with 1200mm diameter for the first time in Mongolia.

INSTALLED A MACHINERY FOUND ONLY 1 IN ASIA AND 5 IN THE WORLD

Erdenet Khivs had put significant efforts to import and install Belgium made Wan-De-Wiele UC103 mark carpet weaving machines on the soil of Mongolia. Only five pieces of the enormous machinery are being used worldwide, and only one is found in Asia. The UC103 uses eight colors to weave the carpets; the most comprehensive range found in carpet weaving machinery, and is capable of producing carpets 5 meters wide, the widest weaving configuration to date, and can weave 700,000 to 1,000,000 stitches with three different weaving patterns in square meter area. With Chinggis Bond financing from the Bank, the company had imported German made fully automated barrel washing lines from Fleissner, and with its installation can now wash and dehair almost 4400 tons of cashmere products.

DOMESTIC PRODUCERS ARE COMPETING ON A GLOBAL SCALE

Aiming to support domestic leather production sector, Golomt Bank provided financing to Darkhan Nekhii, major manufacturer of leather and hides product, and with financing from the Bank, Darkhan Nekhii had increased its turnover capital by 43 percent and had gained in increment of 68 percent of its production capacity. Reflecting the successful collaboration of the two companies, Darkhan Nekhii had imported leather processing machinery from Spain and had upgraded its product quality, design and overall look.

HIGHEST QUALITY SERVICE FOR MONGOLIANS

By collaborating with Golomt Bank, Tushig LLC had erected Ulaanbaatar department store, a world-class department store with fully automated, state of the art heating, ventilation and air conditioning (HVAC) system. With the introduction of such high-class facility, citizens of Mongolia now have access to shopping services with highest quality, customer satisfaction, and convenience.

International Commercial Center (ICC) TOWER – A HIGH-END, MODERN OFFICE COMPLEX IS OPEN

By collaborating with Golomt Bank, Tsast Group had constructed a 21story, high-end, modern office tower complex, namely the ICC tower in 2014. The architectural design of the office complex had been carried out by world renowned Chinese firm the China State Construction Engineering Corporation (CSCEC) while the interior design were handled by Artmost interior design company located in Shenzhen, China. The office tower complex is unique in its integration of high-quality European equipment and devices.

VIVA CITY APARTMENT COMPLEX

VIVA CITY is an apartment complex targeted at young families of the country and is a result of successful cooperation of Golomt Bank and MCS Property LLC. Total of 1,619 households have primed its hearthstones in this apartment complex, and is acclaimed for its unique design and distinct architecture, which incorporates all needs of the residents including four water fountains, 7 sports fields and more than 100 servicing facilities.

Twenty years of innovation

As the catalyst for the local economy, Golomt Bank consistently introduced leading-edge, innovative banking products for the first time in Mongolia, spearheading the development of the sector and it is these achievements that helped the Bank to earn the well-deserved title of "Innovator-Inventor" from both customers and competitors alike.

1995.03.06

Golomt Bank established its footing on March 6, 1995 as one of the earliest privately owned banking organizations in Mongolia with four employees and assets of 436 million MNT. Today the Bank had matured into a leading financial institution, which serves as a catalyst for the local economy.

1996

With the purpose to introduce an advanced non-cash payment system in Mongolian banking sector, the Bank first ever introduced "Golomt Cheque" service in Mongolia.

1997

24-hour banking service via our certain settlement center became available for our customers. Our customers no longer need to hurry to the Bank during business hours, wasting their valuable time.

1999

Became the first commercial bank from Mongolia to join the "MasterCard Worldwide" network, and issued Golomt branded MasterCard's to the Mongolian market.

2000

Became the first commercial bank in Mongolia to join the VISA International network, and issued Golomt branded VISA cards to the local market. The Bank also joined SWIFT– Society for Worldwide International Financial Telecommunications, the same year.

2012

For the first time in Mongolia, the Golomt Bank had launched a self-Service banking service.

SMART BANK

2012

Smart bank, an innovative smartphone based banking application had been developed to provide all types of banking services.

2013 OH

Adding to the notion of being the first bank to introduce international card payment system to Mongolia, Golomt Bank had become the first and only bank to issue Mongolian tugrik MasterCard® which can process transaction from any location in the world.

2014 OH

The introduction of American Express® card, a leader in payment card systems, had been a topic of discussion and been complimented by many of our customers. The American Express® card is famous for its exclusive membership services, satisfactory benefits, and Rewards program which is a reflection of one's social status.

Golomt Bank has successfully integrated "Finacle" core banking system from world leading IT systems integrator Infosys for the first time in Mongolia.

2001

Golomt Bank had become the first bank to introduce Telephone banking service in Mongolia.

2001

The first Mongolian bank to introduce internet banking service and "SMS 525" mobile banking service to the market.

2002

The first bank to issue Certificates of Deposit (CD's).

2003

The first bank to introduce student loyalty card to the market.

2004

The first bank to issue Pass books with magnetic stripe encryption.

2005

The Bank had issued several card products to the market, including Co-branded cards, translucent VISA card, Mirror MasterCard, Students' VISA card and VISA Platinum cards.

2006

Launched the "Financial Supermarket" service thus delivering one stop solution to all financial services.

2008

Golomt Bank was chosen as the exclusive American Express merchant acquirer in Mongolia.

First Mongolian bank to issue cards with EMV chip security technology.

2009 OH

Launched Mobile banking service for Mobicom, a dominant cellular carrier of the country, allowing the carrier's customers to process banking transactions regardless of their whereabouts.

EASY info

2010

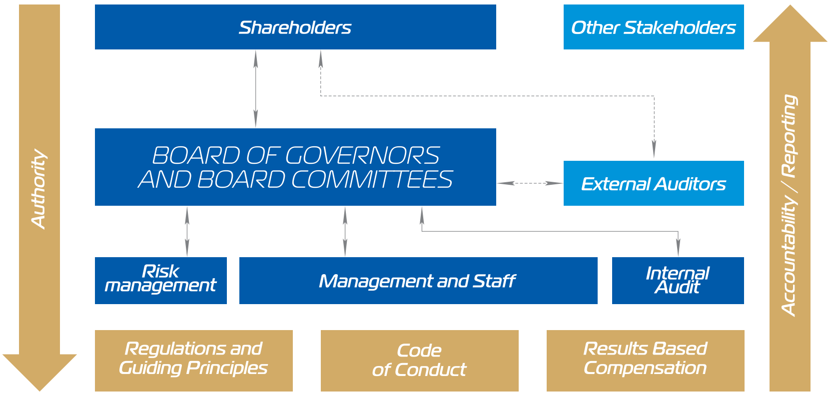
Launched China UnionPay currency card and Nandin picture card, a unique opportunity for customers to print desired pictures on the front of the card, to the Mongolian market..

2011 OH

The first ever Employee Stock Ownership Programme in Mongolia had been initiated.

CORPORATE GOVERNANCE

Corporate governance



Governance structure

Shareholders

Common shareholders

Golomt Financial Group LLC	- 83.66%
Swiss-MO Investment AG	- 10.04%
Trafigura Beheer B.V.	- 4.96%
Shareholders under ESOProgram	- 1.34%

Golomt Financial Group LLC. By the beginning of the reporting period, 'Bodi International' LLC, multifunctional and versatile business conglomerate, was the head company of Golomt Bank. In 2014, its subsidiaries in investment banking, banking, and insurance and brokerage activities were merged into Golomt Financial Group LLC, making it head company of the Bank, to improve professional expertise, effectiveness and business organization. Golomt Financial Group LLC, 100 percent Mongolian invested entity, operates integrated business functions in investment and financing field. The company employs long-term investment policy and owns common shares and convertible loans of Golomt Bank.

Swiss-MO Investment AG is an investment firm operating globally in the field of the acquisition, management and sale of shares in the enterprises of all kinds, as well as offering services and consulting in terms of investments. It is registered in the Canton of Grisons in Switzerland, and its primary shareholder is Mr. Urs E. Schwarzenbach who is a renowned Swiss financier, entrepreneur, and the Honorary Consul of Mongolia in Switzerland. He invested USD 20 million in June 2011, purchasing common shares of the Bank.

Trafigura Beheer B.V., established in 1993, is the world's third largest oil trader and the second largest independent trader in the non-ferrous concentrates market. In March 2012, the company invested USD 15.9 million, owning common shares of the Bank.

Employee Stock Ownership Programme (ESOP)

ESOP was introduced in 2011 as one of its first kind in the country to satisfy the long-term interests and benefits of our valued employees and increase employees' engagement in Bank's management in order to strengthen corporate governance. The program continued during the reporting period and projected to last further. As of Dec 31, 2014, the number of employees who own shares of the Bank reached 114, accounting for 1.34 percent of Bank's equity.

Preferred shareholder

ZORIGT Munkhchuluun bought additional preferred stocks of the Bank worth of USD 5 million in December 2014. As the only preferred shareholder of the Bank his stake now equals to USD 15 million.

The Board of Directors

By the beginning of the year, the Board of Directors comprised of five members. In March 2014, Mr.Antonio Lopez Abello, Spanish, was elected to be the independent member of the Board of Directors, raising the number of members to six, a significant step to promote independence and corporate governance for the Board.

A meeting of the Board of Directors was convened four times during the reporting year and twenty-two issues were discussed and resolved. Attendance averaged 86.5 percent.

The composition

Chairperson
Mrs. ***Ch.Munkhtsetseg***

Member
Mr. ***Z. Temuun***

Member
Mr. ***U. E. Schwarzenbach***

Member
Mr. ***D. Munkhtur***

Independent member
Mr. ***J. Unenbat***

Independent member
Mr. ***A.L. Abello***

Mr.Antonio Lopez Abello, a newly elected independent member of the Board of Directors, has a law degree from the University of Barcelona and an MBA from IESE Business School. He is a qualified lawyer, registered at the Barcelona Bar and Certified European Financial Analyst. Previously, he had held senior positions in Credit Suisse, Goldman Sachs and Banque Paribas and marketed bonds, managed investment products and financings. He is a renowned and seasoned banker, known for his expertise and has 20 years of experience working for some of the leading investment institutions in Singapore and London. Moreover, he is a founder and managing partner at "Turms Advisors" LLP. In 2014, he was appointed as an independent member of the Board of Directors in the Bank.

Audit Committee

Members of the Audit Committee are appointed by the Board of Directors, and they report directly to the Board. Committee submits recommendations on the effectiveness of the Bank's financial and accounting policy, its principles, compliance and review of bank's financial function.

Pursuant to the Banking Law of Mongolia, revised in 2010, the Audit Committee oversees Golomt's Internal Audit Division and the banks relationship with external auditors.

Internal Audit Division is independent of the Bank's management. The Board of Directors reviews and approves the organization of the Internal Audit Division, its management, and the auditors' incentives through the Audit Committee.

The members of the Audit Committee are:

Chairman: O. Ganjoloo

Members: J. Unenbat, Ch. Munkhtsetseg, A.L. Abello, D. Munkhtur

In 2014, audit committee met eight times, resolved thirty-nine items and passed recommendations and judgments. A meeting quorum was confirmed at 100%.

Risk Management Committee

The Risk Management Committee is designed by the Board of Directors and reports directly to the Board. The committee submits recommendations on scaling, controlling and mitigating risks. These recommendations will enhance management's abilities to better assess all types of banking risks.

The composition of the Risk Management Committee is:

Chairman: J. Unenbat

Members: Ch. Munkhtsetseg, Z. Temuun, D. Munkhtur

In 2014, the Risk Management Committee met seven times, discussed thirty-four items and passed many statements and recommendations. A quorum was confirmed at 100 percent.

Remuneration and Nomination Committee

The Committee is comprised of members independent of the Board of Directors. It submits recommendations for the selection, hiring, dismissal of Board members or the management team. It is also responsible for designing the Bank's compensation and remuneration system. The committee sets proper selection processes and incentive systems for the management team. The committee submits proposal or conclusion after each manager's performance is assessed.

The composition of Compensation and Nomination Committee:

Chairman: Ch. Munkhtsetseg

Members: J. Unenbat, Z. Temuun, A.L. Abello

In 2014, the Remuneration and Nomination Committee met six times, discussed eleven items and prepared statements or recommendations. The quorum reached 100 percent.

Major actions by the Board of Directors in 2014

Medium term strategy

The medium-term strategy for 2014-2016 was approved on Mar 28, 2014 by the Board of Directors meeting. This strategy of Golomt Bank sought to define the opportunities and challenges of the Bank and create the optimal strategy for stable and profitable operations. Furthermore, we will more actively oversee emerging risks and anticipate the future changes in the financial sector. This will not only create profitable business opportunities but also align our decision-making process to reflect the realities of the market.

Golomt Bank is one of the most influential organizations in Mongolian economic and financial system. Hence, the Bank is committed to being accountable, responsible and trusted banking that meets or exceeds our own internal financial benchmarks and those imposed by the Bank of Mongolia. In doing so, we will enhance the trust of our customers and meet international standards of good banking. The Bank will remain financially strong with its high market share of deposits and high levels of liquidity.

Golomt Bank's mid-term strategy is defined in the following key business areas.

- Expand and develop retail banking business
- Strengthen and enlarge corporate banking business
- Establish and develop investment banking business
- Implement international best practices

Code of Ethics

Golomt Bank's Code of governance was approved on Mar 28, 2014 by the Board of Directors' meeting. A detailed action plan was also approved and is currently being executed as planned. Golomt Bank's Code of governance consists of following key elements:

- Shareholders rights
- Functioning of the Board of Directors
- Management team conducts
- Auditing and reporting activities

Other relevant documents supplementing Code of Governance are:

- Code of conduct
- Principles of Conflict of interests matters
- Equitable information policy
- Anti-corruption policy
- Anti-fraud policy
- Whistle-blowing policy

Internal audit

The medium-term strategy of Golomt Bank's Internal Audit Division was approved by the Board meeting dated on December 16, 2014. The following objectives were established as essential components of our mid-term strategy:

- Adhere to risk-based auditing methods
- Continual development in operations, applying international best practices
- Highlight and practice information and technology based auditing at high-level

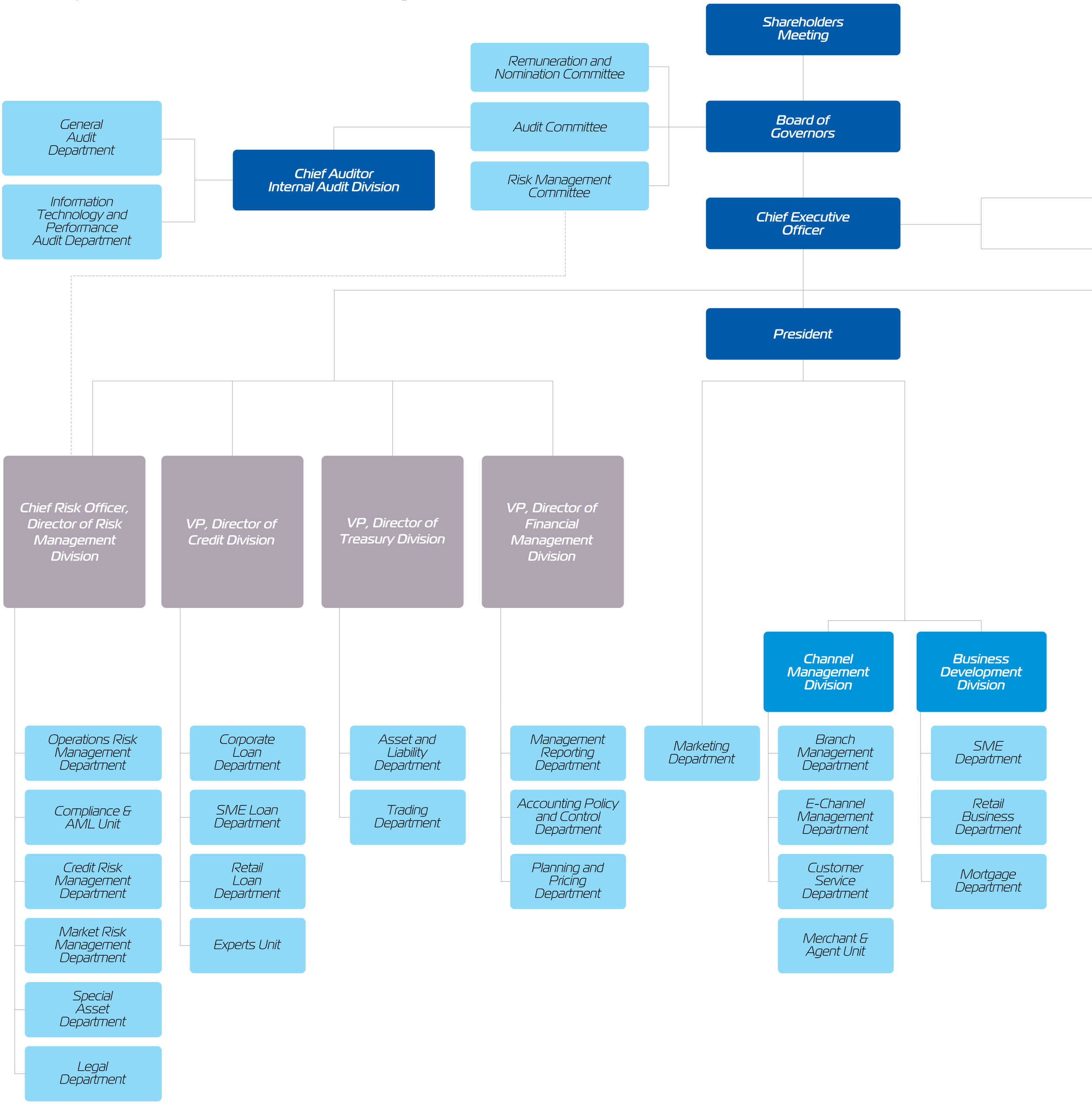
The successful execution of this strategy required us to reorganize the Internal Audit Division and advance its operations. This initiative will be implemented in 2015.

Restructuring program

In 2014, organizational restructuring was undertaken by the board in order to allow the bank to efficiently cope up with demands from ever growing customer base.

Organizational structure

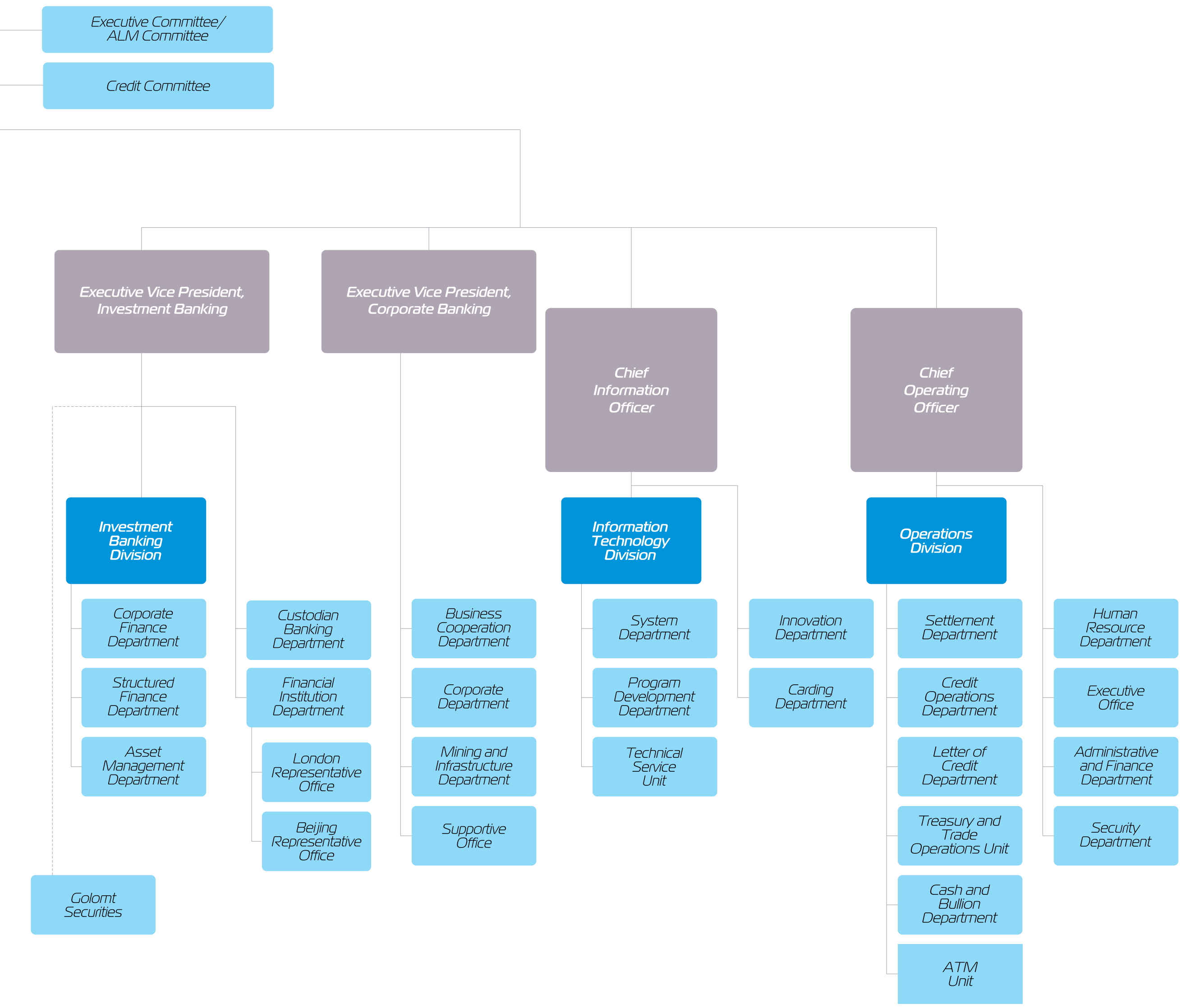
The restructuring and reorganization program of the Bank was approved at the Board of Directors' meeting in March 2014. Associated changes were agreed upon by the Board meetings dated on July 8, October 21 and December 16, 2014. Neither redundancy nor dismissal resulted from the Bank's reorganization.



Core objectives of the reorganization were to harmonize the Bank's expanded operation and strategic dimensions that include the following:

- Establish grounds for customer centric business model that was reinforced in new medium term strategy,
- Separated more clearly the processes of decision making, execution, monitoring,
- Optimum distribution of duties and powers,
- Enhanced system of accountability,
- Performance based remuneration system.

As part of the change Internal audit department was structured to be entirely independent of the Executive management and its operational principles and standards was improved.



Management team

The Bank boasts one of the best management teams in the country who has a rich track record in navigating through market challenges. Some of the members of the senior management team has been with the Bank since its inception while others had joined more recently bringing outside expertise thus creating a robust mix of talents.

U. Ganzorig
President

L. Oyun-Erdene
EVP, Director of Corporate banking

L. Bolormaa
EVP, Director of Investment banking

B. Munkhbaatar
VP & Director Treasury Division

T. Nyamsuren
VP & Director Credit Division

O. Batbaatar
VP & Director Risk Management Division

R. Batsuren
Director Internal Audit Division

B. Enkhtuya
Chief operating officer

N. Tserendavaa
Chief Information Officer

M. Chimegmunkh
VP & Director Financial Management Division

D. Sugar
VP & Director Business Development Division

U. Khosjargal
Director Channel Management Division

Yo. Purevbat
Director Operations Division

B. Erdenebayar
Director Information Technology Division

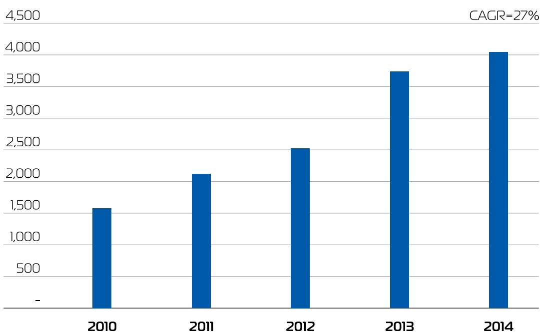
FINANCIAL REVIEW

Golomt Bank fulfills all central bank requirements and operates profitably despite the recent slowdown in the economy .

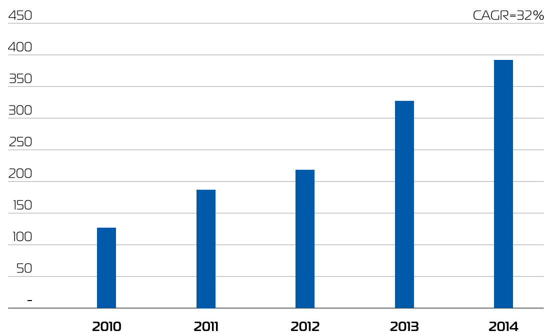
Total assets increased by MNT 303 billion or 8 percent to reach a record level of MNT 4.1 trillion. The Bank successfully cooperated with the Bank of Mongolia and the Government of Mongolia in financing important economic projects.

Shareholder confidence and prudent banking standards require the Bank to maintain a sufficient capital base to cover risks and achieve a high return on capital employed. Total capital increased by MNT 64 billion or 19 per cent to MNT 394 billion. The Bank's capital rose because of an increase in after-tax profits of MNT 49.8 billion and a new issue of USD 5.0 million in preferred shares.

Total Assets (MNT billion)



Capital (MNT billion)

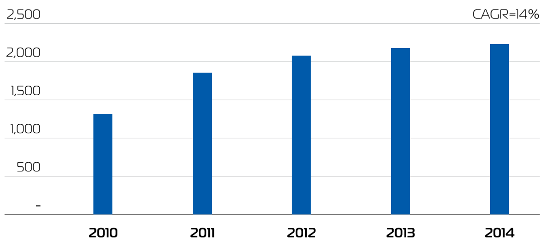


Total customer deposit increased by MNT 71 billion or 3 per cent to MNT 2.2 trillion. Therefore our bank has 22.1 percent share in local deposit market. The retail deposits accounted for about 60 percent in our total deposits.

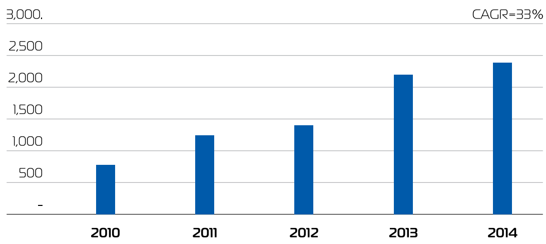
The Bank increased its co-financed funds to MNT 1.0 trillion because of its successful cooperation with the Bank of Mongolia and the Government in financing important economic projects.

Net loans at the end of 2014 rose by MNT 263 billion or 12 percent to reach MNT 2.5 trillion. This constitutes 20.2 percent of the total loans in the banking system of Mongolia. Golomt bank supplemented the country's economic growth by increasing its loans to retail and mortgage customers by 14 percent and a rise of 30 percent in its lending to small and medium enterprises.

Deposits (MNT billion)

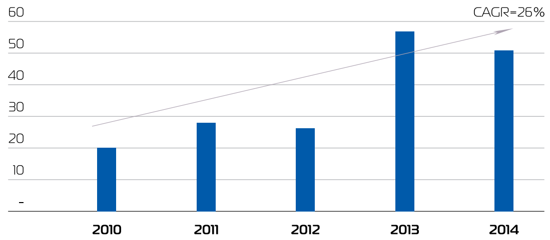


Net Loans (MNT billion)

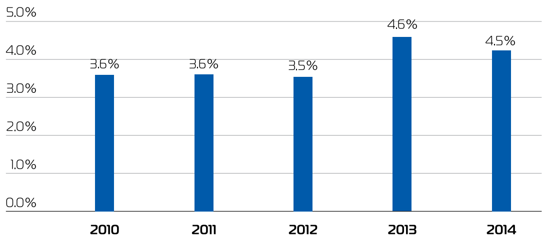


Golomt bank's after-tax profit of MNT 49.8 billion in 2014 was the result of an improved policy of actively managing its assets and liabilities while maintaining sufficient liquidity.

Post-Tax Profit (MNT billion)

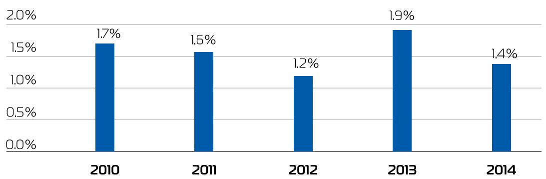


Net Interest Margin (%)

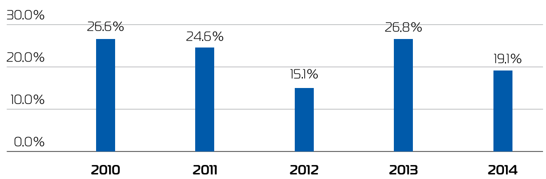


Higher operational profitability resulted in a return on average equity equal to 19.1 percent, a return on average assets of 1.4 percent and the net interest margin was 4.5 percent. In the current slow economic condition, the management considers these to be good results.

Return on Average Assets (%)



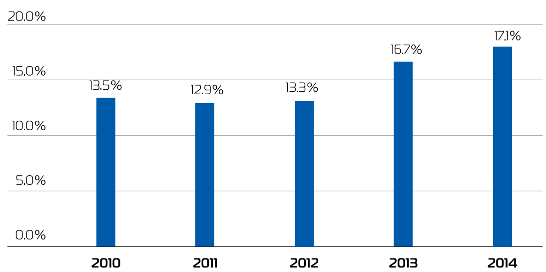
Return on Average Equty (%)



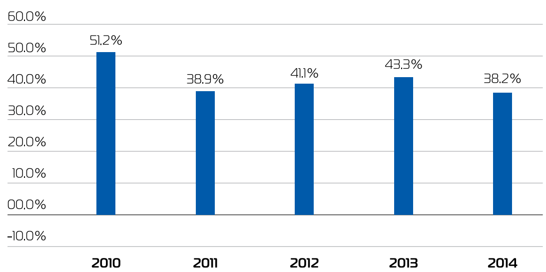
In 2014, Golomt Bank operated in compliance with all the requirements of the Bank of Mongolia and other regulatory organizations.

Capital Adequacy Ratio>14%

BoM requirement changed from 13% to 14% in 2013



Liquidity Ratio>25%



Five year financial results

	2010	2011	2012	2013	2014
Balance Sheet Indicators (MNT million)					
Total Assets	1,573,413	2,134,683	2,526,945	3,749,806	4,053,153
Deposits	1,317,499	1,839,324	2,056,728	2,161,779	2,232,270
Borrowed funds : Co-financed funds	28,387	63,429	112,840	1,032,319	1,011,499
Net Loans	784,605	1,249,341	1,427,852	2,199,228	2,461,920
Capital	127,774	187,959	221,501	329,740	393,736
Profitability Indicators (MNT million)					
Interest Income	111,157	165,165	200,245	290,945	338,366
Interest Expense	(81,448)	(116,240)	(143,127)	(184,701)	(209,312)
Net Interest Income	29,708	48,925	57,118	106,245	129,054
Non-Interest Income (net)	16,749	29,503	32,973	60,780	36,197
Operating Income	46,457	78,428	90,090	167,024	165,251
Operating Expense	(21,242)	(32,515)	(45,419)	(67,116)	(73,068)
Credit and Receivables Loss Expense	983	(6,324)	(10,790)	(27,940)	(27,900)
Impairment loss on financial investment	-	(2,340)	(1,041)	(1,005)	-
Pre-Tax Profit	26,198	37,249	32,841	70,963	64,283
Taxation	(6,145)	(9,022)	(6,694)	(14,106)	(14,455)
Post -Tax Profit	20,053	28,226	26,146	56,857	49,828
Financial Structure Ratios					
Deposits / Total Assets (%)	83.7%	86.2%	81.4%	57.7%	55.1%
Equity / Total Assets (%)	5.3%	6.5%	7.4%	6.6%	7.3%
Net Loans / Total Assets (%)	49.8%	58.5%	56.5%	58.6%	60.7%
Gearing ratio (Total Liabilities/Total Capital)	11.3	10.4	10.4	10.4	9.3
Profitability Ratios					
Return on Average Assets (%)	1.7%	1.6%	1.2%	1.9%	1.4%
Return on Average Equity (%)	26.6%	24.6%	15.1%	26.8%	19.1%
Net Interest Margin (%)	3.6%	3.6%	3.5%	4.6%	4.5%
Cost Income Ratio (%)	44.0%	41.3%	50.3%	40.7%	46.1%
Prudential Ratios					
Capital Adequacy Ratio >14% (BoM requirement changed from 13% to 14% in 2013)	13.5%	12.9%	13.3%	16.7%	17.1%
Forex Exposure Ratios:					
Total Currency <+/-40%	17.1%	10.6%	17.7%	7.0%	9.9%
Single Currency <+/-15%	11.2%	-5.1%	-9.5%	-6.2%	-9.5%
Single Borrower Exposure/Capital funds <20%	17.6%	19.8%	19.0%	15.9%	15.8%
Related Party Exposure <5%	3.4%	3.4%	3.5%	3.0%	4.6%
Related Party Exposure-Total <20%	10.3%	12.7%	9.5%	8.2%	15.8%
Liquidity Ratio >25%	51.2%	38.9%	41.1%	43.3%	38.2%
Fixed Assets Ratio <8%	1.6%	1.5%	1.5%	1.6%	2.6%

BUSINESS OVERVIEW

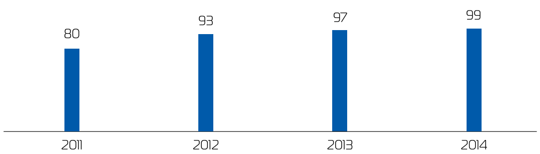
Retail banking

The retail banking at Golomt targets on individuals and small to medium sized enterprises (SME). We deliver services to these customers through our 99 branches and various electronic banking channels throughout the country.

Branch network and e-channels

In 2014, Golomt Bank focused on productivity of branches rather than expansion. Aiming at specialized needs of SME's, two new business centers have been established in Khan-Uul and Bayanzurkh district of Ulaanbaatar. Today, 58.5 percent of the branch offices are operating in Ulaanbaatar, and 41.5 percent are located in 13 provinces throughout Mongolia.

Total number of branch offices



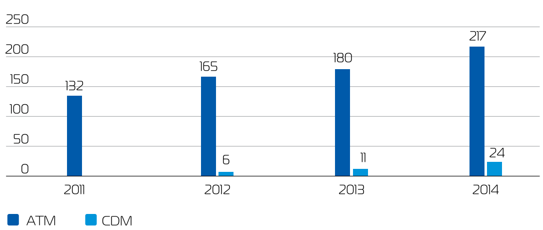
The Bank has also a sizeable number of foreign customers. A dedicated branch for Korean customers in Ulaanbaatar was established in 2009 and since then it became a major success. In 2014, Bukhiin urguu branch was established to focus on Chinese customers, in Bayanzurkh district of Ulaanbaatar.

Golomt bank introduced the first self-service banking (CDM) to our customers in 2012. As of December 2014, the number of fully operating and standardized self-service banking branches have been reached to 17.

To bring banking services closer to its customers, number of automated machines (ATM) have been increased by 26 percent which results in 241 machines in total.

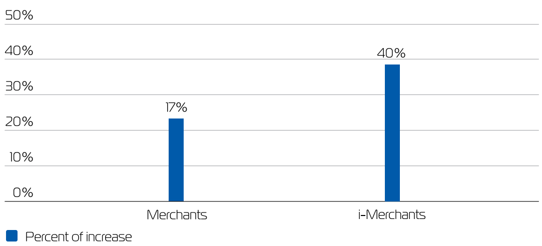
In order to improve the service quality of its ATM's and meet the need of our customers, Golomt Bank has successfully tested and launched its "Quick ATM" project to provide customers with express service which results in fewer operational steps.

Total number of Self-Service machines



Golomt bank employs a proprietary network of POS terminals (Point of Sale) placed with merchants throughout the country. As the share of non-cash transactions increase, we have increased the number of merchants to 1900 in 2014.

POS merchants



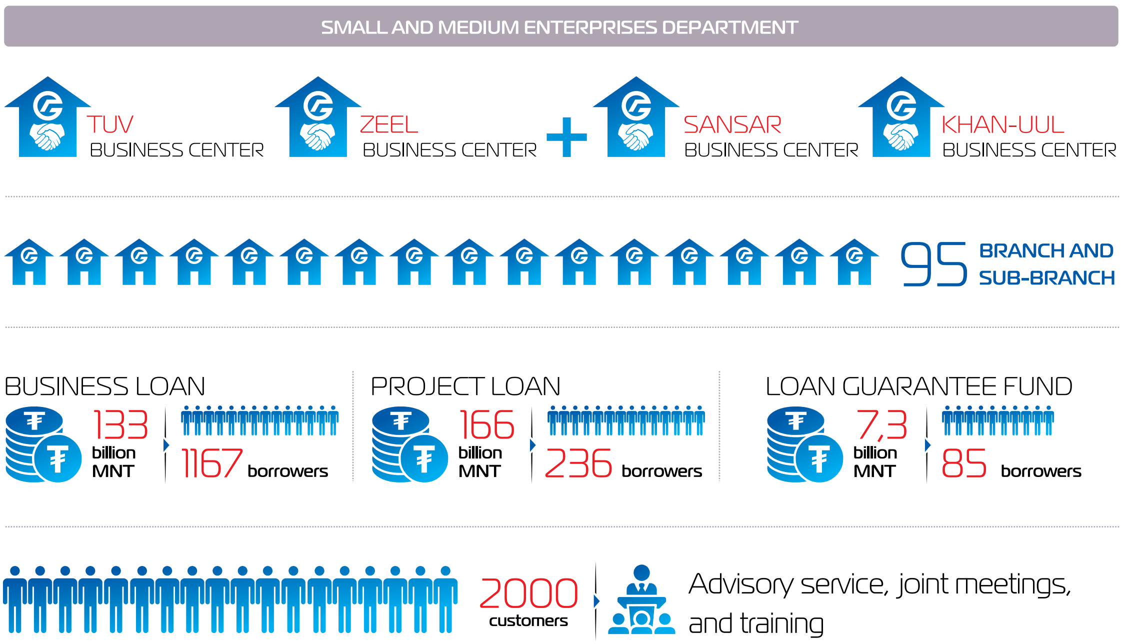
In 2014, the introduction of a new "Customer service center" has extended the previous call center concept and became the on hand source for Golomt Bank customers at any time by the services it offers. It can provide after-sales services for its customers such as resolving customer requests and complaints, giving all banking information and consulting on its products and services.

The customer call center was equipped with new ARP system that enabled more robust communication for incoming and outgoing calls.

Small and Medium Enterprises

Golomt Bank has been establishing its business centers regionally since 2012 in order to deliver all kinds of financial services along with the business consulting services from "One Stop" delivery strategy. Business centers differ from regular branches in that they can quickly extend products to SME customers improving the customer experience. Today, most of SME loan portfolio is handled in 4 business centers throughout the Ulaanbaatar.

In 2014, Golomt Bank established a dedicated SME banking department at its head offices in order to support and develop SME sector through tailor made marketing activities.



Golomt Bank has proactively supported the policy of "Sustainable financing principle," and launched loan policy that highlights for promoting eco, environment-friendly standards.

THE PROGRAM LOAN TO SUPPORT LOCAL PRODUCTION IN ORDER TO INCREASE EXPORT AND REPLACE IMPORT PRODUCTS

62 projects financed

27,5 billion MNT loan issued

+ 230 work place creation

INTRAVENOUS SOLUTION, VACUUM WINDOW, NANO BLOCK, SANDWICH AND STYROFOAM PANELS, PLASTIC FACILITY

PROJECT LOAN AIMED TO EQUIPMENT UPGRADE FOR LEATHER PRODUCTION PROCESSING COMPANIES

10 projects financed

17,1 billion MNT loan issued

+ 150 work place creation

Annually 500 sheepskins, 300 Rawhide, 500 Leather — Elaboration Manufacturing

Monthly 200-300 bags — Bag Factory

Monthly 2550 Shoes — Shoe Factory

Opportunity to export 10-15 thousand shoes to Russia

JICA TWO-STEP LOAN PROJECT FOR SMALL AND MEDIUM-SIZED ENTERPRISES DEVELOPMENT AND ENVIRONMENTAL PROTECTION

15 projects financed

4,1 billion MNT loan issued

+ 160 work place creation

ACHIEVED THE BEST GREEN BANK FOR FINANCING ENVIRONMENTAL PROJECTS IN MONGOLIA

OTHER PROJECT PROGRAMS

PRIVATE SECTOR SME SUPPORT PROJECT LOAN, FINANCED BY KFW BANK OF FEDERAL REPUBLIC OF GERMANY

LOAN TO SUPPORT CREATION OF JOBS IN SME SECTOR, FUNDED BY ASIAN DEVELOPMENT BANK

SME DEVELOPMENT FUND PROJECT LOAN

GOVERNMENT PROGRAMS FOR PRICE STABILIZATION

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 sub program to secure coal reserves, ensure preparation of fuel and energy sectors for winter and stabilize energy prices and tariffs

Meat product reservation make up, building storehouse, stock, intensified livestock husbandry development

52 projects financed

23,7 billion MNT loan issued

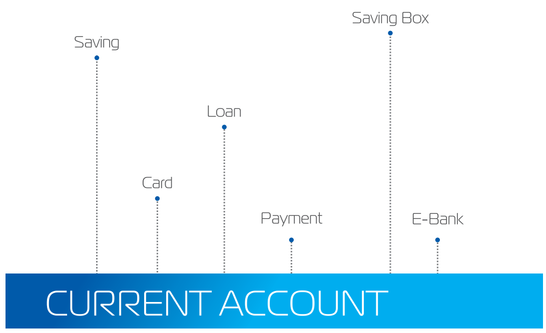
+ 300 work place creation

Individuals and Families

Golomt Bank is committed to promote saving habit among our retail customers. We have introduced number of new deposit and loan products in 2014 all of which were successful.

For instance, we introduced a new savings product "Flexible savings" into the market in September 2014. The product offers quarterly accrued interest on term savings and limitless transaction during the contracted period. Although this is a relatively new product, over 4000 customers happily chose the product by now.

In addition to building savings out of salary, the employee can raise its savings by a contribution from an employer. This product is called "Employees savings fund", in which both employer and employee contribute to a mutual savings fund. The product addresses the deficiencies of current state run social insurance scheme and enables employers retain high caliber staff while incentivizing employees for saving.



Furthermore, we have introduced new products such as Fixed Term Saving and Unified Current account to our valued customers

Unified Current account enables customers to combine and manage both their personal and business accounts in one unified interface while making transactions online rather than visiting the bank.

The Bank issued 150 billion MNT salary loan to over 2,000 organizations' employees, and that financed their short term needs without any delay.

The Bank has continuously implemented financing activity that supports customers to purchase high-cost, expensive household goods with low interest leasing option. For example, the Bank implemented "Ulaanbaatar with bicycle" project in cooperation with Mongolian Youth Union, which supported public health by providing the option of purchasing bicycles with lease payment plan.

In 2014, Golomt Bank reassured its leading position in e-banking service and card business among the Mongolian banks.

As a result of a campaign for extending public knowledge on credit card service, the number of credit card holders increased by 36 percent from the last year.

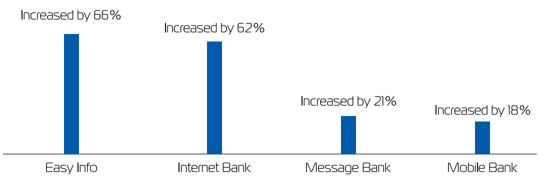
In 2014, the total number of transaction made with card increased by 20 percent and the Bank accomplished the activities below to boost our customers card usage:

- Made available international card issuance such as American Express and Union Pay under the highly secury technology of EMV chip.

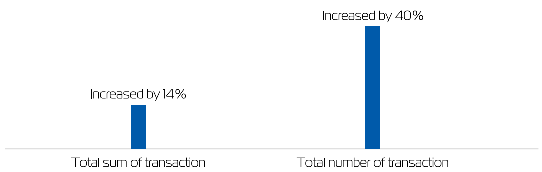
- Enabled American Express and Union Pay card online transaction through Golomt banks' e-banking website.
- Introduced the account number printing service on local and international MNT card plastic.
- Successfully implemented Republic of Korea's healthcare, beauty and travel Rewards program for our international card holders.

Golomt Bank introduced new core banking system Finacle by leading company Infosys, and within the framework of the project, the e-service system has been modified completely up to international standards.

Customer of E-Banking



Transaction by E-Banking

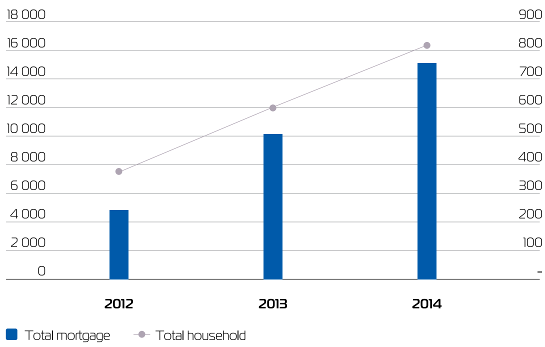


E-banking and mobile banking interfaces were changed and both number of electronic banking customers and overall transaction volume has increased. The e-banking interface has gotten smart and more customer friendly.

For the first time in Mongolia, we have successfully introduced WesternUnion money transfer service with online banking option that enables customers to receive or send money via their e-banking.

Mortgage financing

In 2014, we disbursed housing loans of MNT 326 billion to 6,344 households. Therefore, the total mortgage loan portfolio increased by 28 percent, reaching MNT 623 billion , and the number of mortgage recipients increased by 37 percent, reaching 16,442.



Corporate banking

As of 2014, Golomt bank retains 20 percent share of total corporate banking market in Mongolia. We are one of the top service providers and acclaims largest companies in Mongolia as our customers.

Market share by sector

Economic Sectors	BANKING SYSTEM	Golomt	Market share (%)
Agriculture	316,834.4	63,595.4	20.1
Mining & Exploration	1,129,537.7	226,021.6	20.0
Manufacturing	1,317,763.2	388,178.5	29.5
Electricity	64,011.1	56,384.3	88.1
Construction	1,647,369.7	232,159.9	14.1
Trade - Whole & Retail	1,803,412.9	280,274.0	15.5
Transport & Communication	174,815.3	54,941.1	31.4
Finance	232,357.1	27,754.7	11.9
Real estate	2,223,460.6	96,333.1	4.3
Education	40,200.9	2,963.2	7.4
Healthcare	73,455.9	20,306.0	27.6
Others	3,417,707.0	951,162.4	27.8
TOTAL	12,440,926	2,400,074	19.3

The Corporate Banking Division of the Bank handles the services and relationships with more than 400 public and private corporations, international organizations, foreign embassies and government entities.

As a leading participant in the Price stabilization program implemented by the government and the Bank of Mongolia, the Bank successfully financed 82 billion MNT to national corporations. This enabled us to finance at least 35 percent of annual gas consumption and 43 percent of meat supply of Mongolia in the reporting year.

The following are examples of large scale projects that we financed in 2014:

- A juice manufacturing factory that can produce 18000 bottles of product per hour with four different types of packaging system was built.
- An internationally qualified hospital with the latest equipment and capacity for receiving 500 patients was opened.
- 300 km new road was built.
- An internationally qualifying plant that can produce cathode copper of 10,000 tons a year was opened.

Golomt Bank was awarded the exclusive mandate to provide financing to agricultural industry, particularly in the fields of wool, cashmere processing, sewing, greenhouses and dairy farming from Chinggis Bond proceeds. The Bank honorably implemented the government program by introducing new factories, new processing lines, innovative technologies and new products into the market.

Below are the examples of the projects under Chinggis Bond proceeds:

- Globally fifth, the first time in Asia, Wan-De-Wiele firm's UC103 carpet weaving machine was installed, increasing the assortments of Mongolian brands.
- Brabant technology with seven launders, capable of washing 4,400 tons of wool a year, and fully automated wool washing line was established.
- In operation for the first time in Mongolia, a dried milk factory that is capable of producing 3120 ton of dried milk per year was opened.
- A new factory that could produce 880 tons of eco-construction materials from wool was built.
- The total capacity of wool spinning was increased by 30 percent while total textile production was increased by 2 million meters.
- Over 2,000 selected breed of cows from France, Germany, and Slovakia were brought to Mongolia for the purpose of developing intensive dairy farming.
- The total capacity of milk production was increased by 11,700 tons.
- Winter cultivation area was increased by 16 hectares by building advanced technology greenhouses and outputs of fruit and vegetables were increased by 9,000 tons.

All these results dignify the dedication of Golomt Bank towards the long-term sustainable development of the private sector, which in turn contribute to the overall economy of the country.

Mining sector

Over the past few years, the slowdown of China's GDP and other major economies resulted a downturn of the prices of mineral commodities in the international market. Although Mongolian export revenue from mining has not reached the projection, in 2014 the overall export volume of mineral commodities increased. Golomt Bank is actively committed to responsible mining and works closely with such companies in both the domestic and international scale. As a result of our cooperation, our customers and businesses have contributed to Mongolia's total export volume by exporting nearly 40 percent of iron ore, 15 percent and 20 percent of fluorspar and coal respectively.

In addition, Golomt Bank has established strong collaborations with a number of reputable global banks and financial institutions, offering comprehensive and competitive services including trade and working capital financing to our customers from the mining sector.

As a result, Golomt Bank has successfully maintained its loan growth to the mining sector at the desired level while reducing the concentration of the borrowers by 30 percent.

In 2014, Mongolia had a dramatic increase in gold production. In this field, over 30 gold mining projects were financed by the Bank under the 'GOLD' program announced by the government. This resulted in an increase in gold production by nearly three folds, compared to the same period last year.

Thus, the Bank was awarded as 'Best Supporter Bank' by the Gold Producers Association of Mongolia, which was granted to our Bank in appreciation and recognition of our banking services to this sector.

Investment Banking

In 2014, Golomt Bank continued expanding its scope of cooperation with international banking and finance organizations, increasing its financing solutions to businesses to support their export and import activities and offering the best choices of international payments to our customers.

The Bank is cooperating with over 70 international banking and financial institutions globally and processing payments in 13 different currencies.

As the end of 2014, funding from international banks and financial institutions increased by 85 percent and trade finance credit lines increased by 45 percent compared to the previous year. During the reporting year, the Bank has expanded its correspondent banking with Hana Bank of Korea, Yapi ve Kredi Bank of Turkey, Raiffeisen Bank International of Austria, DBS Bank of Singapore, the Bank of Inner Mongolia of China and Mashreq Bank of United Arab Emirates and mBank of Poland. These results demonstrate not only the confidence that banks place on Golomt bank's management but also offer diversified financial solutions to our customers.

The Bank offers letter of credit, LC post financing, trade loan and bank guarantee services with twenty-three cooperating global financial institutions. In 2014, we established cooperation and trade finance relations with Banco Popolare di Vicenza of Italy, Nordea Bank of Denmark, VEB of Russia, Raiffeisen Bank International of Austria, Vnesheconombank of Russia, Hungarian EXIM Bank, SACE of Italy and with Bank Gospodarstwa Krajowego, Poland. These newly established relationships are significant in terms of expanding trade relations with respective countries and offering new financing choices for our customers. In 2014, the Bank became the first Mongolian member bank of the Asian Financial Cooperation Association (AFCA), an organization that accommodates thirty-eight leading banks and financial institutions in Asia and China as members. The fact that the Bank was chosen as a member bank from Mongolia is an affirmation of the Bank's reputation of a leading bank in Mongolia. The Bank has also signed a cooperation memorandum with Minsheng Bank, one of the founder institutions of AFCA to expand further its cooperation with Chinese financial institutions.

Golomt Securities LLC

Golomt Securities LLC's primary goal is to contribute to the development of the Mongolian capital market, continue its leading role in capital markets and promote sustainable growth by providing brokerage and investment advisory services based on research, introducing new products and employing a team of highly trained professionals with high ethical standards.

Through our services, our customers can trade on both the Mongolian Stock Exchange (MSE) and international markets.

We provide our customers access to trade on the New York Stock Exchange (NYSE), London, NASDAQ, ASX, HKEX and other major markets. In 2014, Golomt Securities pioneered the first online trading platform on the MSE developed together with Nomura Research Institute allowing investors anywhere in world to have access to the MSE. We believe this is a significant contribution to the development of Mongolia's capital market. In 2014, Golomt Securities acquired an investment advisory license from FRC and the number of brokerage customers increased by 45 percent.

Timely news, analysis, and research are critical in making well-informed investment decisions. Golomt Securities has formed a strategic partnership with First Frontier Capital Limited, a UK-based investment bank specialized in frontier markets, to jointly conduct research and analysis as well as to collaborate on attracting foreign investments into Mongolian capital market. Partnering with New York Society of Security Analysts and Golomt Bank, Golomt Securities has successfully organized its annual "Investing in Mongolia" conference in New York in 2014. It was a well-attended event showcasing premier companies from Mongolia to investors and analysts from global investment banks and research institutions.

Our goals for the year ahead are to improve our interaction with international investors, to facilitate the ease with which local and foreign investors conduct their trades on the MSE with the help of up-to-date programs and to develop innovative products to launch in the local market. Always keeping our customers' interests at heart, Golomt Securities is committed to the development of the Mongolian capital market and becoming Mongolia's market-leading investment consultant, underwriter, and brokerage firm.

RISK MANAGEMENT AND CONTROL

Risk management

Effective risk management is a fundamental key to the success of the Bank and managers at all levels fully recognize it as a primary leverage to reach the strategically important goals, which furthermore becomes the basic building block of healthy risk governance, and pervasive, robust risk culture. All employees of the Bank are familiar with and able to manage the risks involved with the activities, in which they are engaged, taking full responsibility for the decisions they make to the given extent and successfully implementing integrated risk management solutions in the Bank.

Risk management framework

The primary goal of Golomt Bank's risk management is to keep an appropriate balance between risk and reward, within the framework of risk appetite.

If necessary, the Bank develops an action plan in a timely fashion and renews its other operational plans by maintaining risk profiles in continuously changing political and economic situation. For example, in 2014 the "Contingency plan of Golomt Bank" and the "Governance Code" have been renewed and approved by the CEO and the Board of the Bank.

Golomt Bank has implemented a new risk management framework, which has the three lines of defense and the monitoring of the risk management process of the business units had been improved continuously. The new risk management framework consists of the following defense lines:

- Business units: Functional business line staff and management incur and own the risks related to their business activities and take full responsibility for the decisions made.
- Risk Management Division determines the Risk Management Policy and provides independent oversight on the risk management process of the business units as well as formulates the related rules, regulations, standards and guidelines, which are consistent with the Bank's risk limits and operational structure.
- Internal audit division independently monitors the implementation of control objectives within the operational framework

of the first two defense lines, draws conclusions, formulates the instructions and actions that need to be taken further and gives objective challenges to the first two lines of defense.

The framework of Golomt Bank's risk management consists of the three principal elements, namely risk governance and culture, risk limits and risk mitigating tools.

1. BUSINESS UNITS	2. RISK MANAGEMENT DIVISION	3. INTERNAL AUDIT DIVISION
- Own the risks associated with business activities - Exercise business judgement based on the evaluation of risk and return - Ensure activities are within the Bank's risk appetite and risk management policies - Key performance indicators of the units have to be evaluated not only on the basis of financial performance indicators but also risk appetite and tolerance	- Independently facilitate and monitor the implementation of effective risk management practices - Responsible for policy development, limits, monitoring and reporting - Provide objective challenges to business units within the framework of risk management policy - Provide training, tools and advice to support policy and compliance.	- Independent monitoring and oversight function. - Evaluate effectiveness of the applied risk management framework and control systems. - Audit findings reported to management and Audit Committee.

Risk governance

Since the effective risk management is based on the strong risk governance that is consistent with the company's operational frame, the Board of Directors is actively engaged in the risk management, supported by the Risk Management Division which is obliged to report directly to the Board's Risk Committee.

The Board of Directors: The Board of Directors is responsible for ratifying the Risk Management Policy, approving the risk limits and monitoring the implementation of control objectives through the Risk Committee in a quarterly manner.

Executive management: Risk management is implemented by the executive-level managers in accordance with the Board approved the Risk Management Policy and risk limits. Internal audit division and the Risk Management Division not only provide independent oversight to the implementation of control objects by the business units and employees but also report directly to the Board's Risk Committee, the Chief Executive Officer and the Executive Committee which works under the oversight of the Chief Executive Officer.

Risk Management Division: The Risk Management Division implements risk management, risk management framework and its tools independently from the business units of the Bank.

Executive Committee: The Executive Committee formulates the risk management related issues for the Bank's key strategies, policies, business plan and other documents which have to be approved by the Board of Directors; directs the execution of those strategies, evaluates the implementation of the risk limits and the Bank's ongoing financial performance and makes crucial decisions by discussing the risk management regime across the Bank.

Credit committees: Depending on the loan size, decisions are made either through the Credit Committee or the Credit subcommittee. These Committees adopt decisions in accordance with the Board's approved the Risk Management Policy and credit risk limits; approve the rules, guidelines and standards related to the credit activities and monitor the implementation of these rules and regulations.

Asset and Liability Committee: The Asset & Liability Committee, of which the primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in capital structure, increases the profitability of the Bank by effectively managing assets and liabilities and formulates step-by-step action plan for the implementation of related risk limits, supporting the Chief Executive Officer in the implementation of approved plans.

Risk management culture

The business lines are obliged to develop and execute business plans that are aligned with the Bank's risk management structure, implement the determined risk control measures in key performance indicators, and are responsible for renewing and updating the guidelines, regulations, rules and evaluation approaches of the business plans related to the accountability for the risks they incur.

Besides that, the risk education programs and documented policies and procedures are jointly available to staff in the business lines and Risk Management Division.

Risk appetite

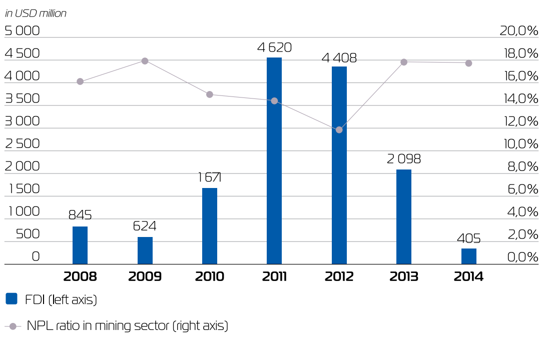
Golomt Bank approves, formulates and implements appropriate risk appetites, which are not only the main building blocks of the effective risk management, but also should be consistent with the operational frame of the related units. The Bank's risk measurements are determined not only on the basis of main risk assessment and risk tolerance evaluation, but also appropriate fundamental approaches to calculate the risk measurements, considering the consistency with the strategically important goals and financial objectives.

Market risk

Golomt Bank evaluates the potential market risk factors regularly and reports to the Executive Management and the Risk Committee, by systematically analyzing the operating environment of the Bank and constantly changing macroeconomic condition. Hence, it has supported the Executive Committee and the Risk Management Committee on the decision-making process.

Leading economic indicators have been determined appropriately, and the Risk Management Division has worked keeping the track of these leading economic indicators, which are used to predict economic upturns and downturns. GDP deflator, calculated by using 2005 as the base year, had been used to predict the business cycle of Mongolia. We have chosen some critical factors that can determine the banking system environment and analyzed the relationship between these leading indicators and real macroeconomic data from 2000-2013. As a result of the research, we have found that the leading indicators such as, profitability of mining sector, copper price, interest rate, money supply, international reserves, exchange rate, TOP 20 index and stock exchange turnover can predict the business cycle of Mongolia to a significant extent.

FDI and mining sector



In the last five years, 80 percent of the total Foreign Direct Investment (FDI) has been invested in mining sector and hence, we have determined the FDI as one of the indicators that can help to predict the mining sector profitability. Commodity prices can also be considered as a leading indicator of mining sector development, and we regularly analyzed commodity price indices, which made it possible to predict the profitability of the mining sector. Hence, we have decreased the loan limits of our total loan portfolio in the mining sector. As a result of contractionary loan policy and new loan limits, we have successfully predicted the potential credit risk and protected the Bank from loan portfolio deterioration to a significant extent. Besides that, the loan limits in trade and construction sector have been decreased, and we have implemented a contractionary loan policy. In 2014, basing on the results of researches and new forecasting approaches; we have formulated the "Crisis management plan of Golomt Bank" and determined the leading indicators of the Mongolian business cycle.

Interest rate risk

The principal market risk arising from our non-trading activities is an interest rate risk, which mitigates the adverse effect of interest rate on the Bank's profitability level and capital. The principal objective of our interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure.

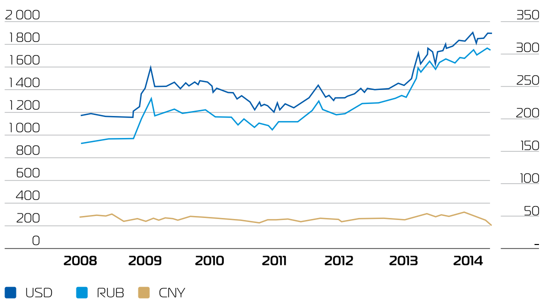
We manage our interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods used to assess the degree of interest rate risk including gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, we manage and minimize risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on the allocation of resources. In 2015, the Bank is intending to improve the analyzing techniques and predict the interest rate level on the market, which furthermore makes us possible to develop our products optimally and align with the business development procedures. Hence, it makes us possible to keep the optimal balance between risk and reward.

Exchange rate risk

We have determined the exchange rate as one of the leading indicators of the Mongolian business cycle. It has been proven that the Chinese Yuan and USD have a significant effect on Mongolian business cycle compared to other foreign currencies. Hence, we focus more on the forecasting techniques of Yuan and USD. The Risk Management Division cooperates with other divisions of the Bank and developing additional forecasting techniques. In 2014, the Risk Management Division forecasted the Tugrik's value to depreciate in the long run and prepared the guidelines to manage exchange rate risk to other related divisions of the Bank.

In the short run, the exchange rate effect on loan quality is relatively high. We have given further guidelines and action plans to Credit Division to decrease the foreign currency loans to avoid the potential exchange rate risks. Hence, we have significantly contributed to the prevention of potential loan deterioration.

MNT exchange rate against major currencies

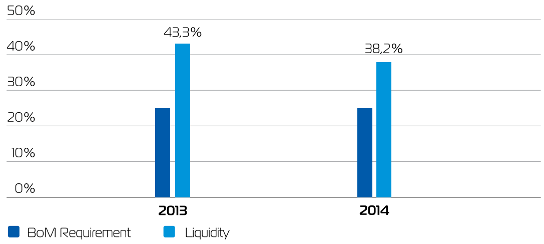


Liquidity risk

Golomt Bank's liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short and medium-term payment obligations could be met under normal or stressed conditions. Liquidity management is implemented centrally on a real-time basis by the Treasury Division through all of our divisions and branches, in accordance with the forecasts and internal requirements and the director of the Treasury Division is consulted on each major credit decision regarding the impact of credit on overall liquidity position. The Board's Risk Management Committee sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework to the Bank's liquidity risk management.

In 2014, we internally developed scenarios that reflect the possible different changes in the loan portfolio and analyzed the impact of loan growth on overall liquidity position, by making stress test analysis. As a result of the stress test analysis, we have decided to implement a contractionary loan policy and successfully managed the liquidity position, which fully meets the 25 percent, the required lowest level of the Bank of Mongolia.

Liquidity



Besides, we have formulated the liquidity action plan if the leading indicators signal the declining economic growth, deteriorating market conditions, and financial sector instability. Hence, the actions that are needed to be taken in adverse operating conditions became apparent and made possible for us to overcome the challenges less costly.

De-concentrated portfolio

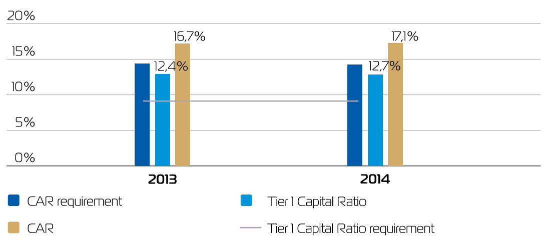
Concentration limits are set within the risk management framework, in order to avoid the concentration risk and to keep the Bank's assets and liabilities less dependent on large customers and some determined economic sectors. Funding source of Golomt Bank is very stable and not only consists of an optimal collection of the big and small customers but also has an appropriate balance between demand and current accounts. In times of economic difficulty, the funding source for banking sector deteriorates, while the small deposits and current accounts stay as the dependable funding source.

Stress test

The Risk Management Division develops internally the potential adverse scenarios and anticipated balance sheet cash flows are subjected to a variety of both bank-specific stress test scenarios in order to evaluate the impact of plausible events on the Bank's position.

In the first half of 2014, the non-performing loans in the banking system increased by 95.2 percent. Increasing trend of the non-performing loans in banking system could have affected the Golomt Bank and led to the deterioration of loan portfolio, which furthermore might have led to the Capital Adequacy Ratio (CAR) deterioration due to the increased amount of loan loss provision. Hence, we have assumed the potential loan portfolio changes and made tests under potential stressed conditions. Based on the stress test results, we have implemented the appropriate actions that need to be taken and successfully managed the CAR, by keeping the indicator above 14 percent.

CAR



Credit risk

The Credit Risk Management of Golomt Bank is intended to mitigate the credit risks arising from lending activities to a possible minimum level. The effective management of credit risk requires the establishment of the appropriate credit risk culture. The Risk Management Policy (RMP), the Credit Risk Appetite (CRA) and our Credit Policy (CP) are essential elements used to create this culture. RMD presents the development proposal of the Bank's risk policy to the Risk Management Committee and The Board approves RMP and CRA on an annual basis. Also, RMD improved CP and presents to the Executive Committee into credit risk policy.

The Risk Management Policy and Credit Risk Appetite include the following principles:

- Credit Risk Management framework;
- Risk mitigation tools for concentration;
- Monitor the quality of the credit portfolio.

Within the framework of supporting the Bank's growth strategy, our credit policy includes the following principles:

- Central concept, standards and limitations of credit operations;
- Guidelines for employees involved in credit operations;
- Credit operations structure and decision-making levels of credit approval;
- Credit operations rules of the Bank;

RMD is responsible for the portfolio quality assessment and loan classification besides the implement and development of the Credit Risk Appetite and Credit Policy. As an ongoing element of the continuous development of the credit risk culture within the Bank, the Credit Division is responsible for provide day-to-day management of business units and ensure the implementation of Credit Policy.

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

Credit Risk Management

Last year, the Bank pursued strict credit policy in most economic sectors and will continue the policy in 2015. We decreased loan limitation of mining and construction sectors which had the high impact of FDI and currency exchange rate risk to prevent an increase in non-performing loans. Also, we focus on the impact of market risk on loan repayments and improvement of the loan monitoring process to maintain the credit quality in sustainable level in transport and communication, mining, construction and trade sectors. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the perceived risks to which it is exposed and take corrective action. It is the responsibility of the controlling unit continuously to examine, design and improve the quality of standardized formats and reports to ensure that the Bank's ability to manage, monitor and control its lending activities. Upon developing internal credit assessment methodology, we provide independent conclusion through the study of repayment capacity of the borrowers, including corporate and SMEs, whose loan amount exceeds MNT 50 million as well as through thorough study of the loan usage. This methodology 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. Credit committees' decision-making process is supported by credit assessment and risk review done by independently following level:

- Credit assessment: Proposal and assessment done by Business units
- Risk review: Risk review on loan request and valuation of credit assessment done by Business units

Loan Monitoring

Loan portfolio quality control is implemented at two levels:

- Portfolio level
- Customer segment level
    - Corporate loan
    - SME loan
    - Retail loan

Under monitoring process, default loans and loans with a probability of default are recorded in "watch list" and relevant units take steps for the repayment of these loans.

Loan Classification

We calculate and report impairment allowances for regulatory purposes on a monthly basis according to the methodology prescribed by the Bank of Mongolia. For the purpose of regulatory and tax reporting, we calculate a separate loan loss allowance in accordance with requirements set by the Bank of Mongolia.

Impairment assessment

According to the IFRS, impairment assessment of the Bank's loan portfolio was calculated using individual assessment and collective assessment. In 2014, loan impairment assessment was verified by international audit firm PriceWaterhouseCoopers and included in the financial statements.

An individual impairment assessment that is calculated based on the following parameters in the each loan has the significant impact on the balance sheet and profit if the trigger event occurred.

- General information about the borrower
- Loan information (included loans from other banks and financial institutions)
- Business conditions and circumstances of the borrower
- Financial statement analysis
- Receivable turnover analysis
- Financial ratio analysis

Collective impairment assessment is calculated on group of loans of similar risk using the concepts of a Loss Identification Period (LIP), Probability of Default (PD) and Loss Given Default (LGD).

Operational risk management

Golomt Bank has successfully managed the operational risk that is in the form of possible losses resulting from inadequate or failed internal procedures, human or systems errors, or from external events. Operational risk can often be associated with one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, and fire and storm damage. To minimize such risk that do not depend on talented and sound risk management, the Bank has been developing robust insurance policy. Operational risk can not only result in financial loss, but also regulatory sanctions and damage to the Bank's reputation. Thus, Golomt Bank is committed to implementing best governance, risk culture, and responsibility with full compliance with legal and ethical conducts. The Bank is very successful at managing operational risk with a view to safeguarding customer assets and preserving shareholder value. In 2014, operational risk losses continued to be within the Bank's risk appetite.

Governance and Organization

The Bank has developed policies, processes and assessment methodologies continuously to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles of the Bank's Operational Risk Management Framework include:

- The Risk Management Division is responsible for the independent oversight of operational risk management and governance, for the establishment of the bank risk management framework, and for performing a controlling and reviewing role in the operational risk identification and assessment process to ensure consistency in the framework applied.
- Business units are the key functions of operational risk management besides the Risk Management Division, and Internal Audit does an independent review on those units and directly reports to the Board of Director.

The Board of Directors has made the number of decisions to become Golomt Bank has the prudent governance and organizational structure through which there is effective oversight and in which operational risk is managed to an established risk appetite, including:

- The objective of the Bank's operational risk management is to manage and control operational risk in cost efficient manner within targeted levels of operational risk consistent with the Bank's risk appetite.
- The Board of Directors is responsible for sound corporate governance and reviews annually the Bank's Operational Risk Management Policy and Operational Risk Management Framework.
- The Board of Directors is involved in important decisions about operational risks which includes the approval of the Operational Risk Policy and Risk Appetite Framework, and receiving notification of significant operational losses.
- The Executive Committee chaired by the Chief Executive Officer and provides consistent, Bank-wide oversight of operational risk management.
- An independent, Internal Audit Department responsible for verifying that significant risks are identified assessed, and for testing controls to ensure that the overall risk is at an acceptable level. The Internal Audit department is also responsible for auditing and evaluating the Bank's Operational Risk Management Framework and its design and effectiveness.

The Operational Risk Management Policy is approved by the Board of Directors. The Bank's Operational Risk Policy covers the following:

- The definition of operational risk, risk appetite, and governance structure; setting out the objectives of operational risk management in the Bank's framework.
- The methodology for the operational risk framework, including identifying, assessing, monitoring and managing the Bank's current and potential operational risk exposure.

The Bank also has policies addressing security and insurance that are considered part of the operational risk management framework. Golomt Bank has good 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.

Operational Risk Management Framework

The Bank's Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risks across the Bank. The following are key components of the Bank's Operational Risk Management Framework:

- The Risk Management Division is responsible for: developing and applying methods to identify, assess, manage and monitor operational risks; and reporting on risks as well as actual loss events and to play a challenge role to the business units in their assessment and management of operational risk.
- Operational risk assessment process starts risk identification of key operational risks and assessment of response. When risk owners are determined, detailed assessments of each risk's key controls are reviewed and documented, and key risk indicators are identified as part of the ongoing monitoring of operational risks.

- The Bank's risk and control assessment program includes formal reviews of significant units, operations and processes to identify and assess operational risks. This program provides a basis for management to ensure that key risks have been identified and that controls are functioning effectively.
- The Bank's operational risk losses are registered in the Operational Risk Database System on a timely basis. Losses are categorized according to the Basel II event categories for operational risk.
- Risk Management Division controls branches and units through risk indicators of the checklist, and carries out a risk assessment of each unit, product and services frequently using advanced methods.
- The Bank's centralized operational loss event database, which is managed by the Risk Management Division, captures essential information on operational losses. This data is analyzed and reported to the Bank's Executive Management and the Board of Directors to provide insight into operational risk exposures, appetites and trends.

Business continuity management

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 the backup center, perform regular tests, incorporate required changes into a business continuity plan, and focus significantly on improving our ability to minimize the time to recover normal business.

Compliance Policy

Compliance starts at the top. Effective compliance risk management aims at stimulating, monitoring and controlling the observation of laws, regulations, internal rules including the compliance principles outlined in Golomt Bank's Code of Conduct and established good business standards that are relevant to the integrity and, hence, to the reputation of Golomt Bank. It concerns everyone within Bank and should be viewed as an integral part of Golomt's business activities.

The compliance function of Golomt Bank supports the entity and its management in managing the compliance risks and embedding and improving the compliance arrangements in all levels and structures of the Bank.
The compliance function therefore has the following objectives:

- To identify, assess, monitor and report on the compliance risks faced by Golomt Bank.
- To assist, support and advise top and senior management of Golomt Bank in fulfilling its responsibilities to manage compliance risks.
- To advise any staff member of Golomt Bank with respect to their (personal) responsibility to manage compliance risks.
- To provide for training on compliance issues including Anti-Money Laundering in order to raise awareness of integrity issues and business ethics by arranging seminars as needed and by acting as a contact point for queries from staff members.
- Recommends and comments on policies, guidelines, rules and procedures for compliance issues such as a code of conduct.

In the Bank's Compliance Policy, the important part is undoubtedly dedicated to anti-money laundering and counter-terrorism financing operation.

The Bank continues to strengthen its commitment to combat money laundering and terrorism financing crimes. To that end, the Bank has trained its Anti-money laundering (AML) personnel to maintain an experienced and dedicated staff to be in line with international standards and requirements and, therefore, the Bank's AML Officer has earned an internationally recognized credential of a Certified AML Specialist awarded by the largest international membership organization as Association of Certified AML Specialists.

ASSET LIABILITITY MANAGEMENT

Treasury Management

Bank is aiming at maintaining an asset and liability portfolio with prudent risk and maximum profit based on the maturity and interest rate management. While maintaining a balanced asset and liability management, we base our operation on following up-to-date internal analysis and reports:

- Daily Liquidity Ratio and daily maintains of Required Reserve Ratios
- Short and medium-term cash flow analysis and forecast
- Daily analysis of the structural changes in Bank's balance sheet
- Foreign currency liquidity management
- Interest rate and maturity GAP analysis

In regard to the uncertain market condition, Golomt Bank kept adequate liquidity as the top priority in 2014. At the end of the year, liquidity ratio was 38.3 percent.

For the monetary policy, the Bank of Mongolia implemented changes in a risk-weighted asset, reserve requirement, and policy rates in response to the shifts in the market.

Golomt Bank implemented each of those policy changes in our operation and met all the requirements.

Trading activity

Securities trade

Treasury Division efficiently maintained the Bank's liquidity by borrowing and placing reserves through the interbank market. In addition, the Bank played a major role in bill auction of the central bank and traded 43 percent of the total bill issued in 2014.

The Bank of Mongolia bills serve as an instrument for setting the policy rate of the central bank and play an important role for the banks in managing their excess reserves. For the given market conditions, the Bank of Mongolia increased the policy rate by 1.5 percent to 12 percent in July 2014.

In effort to develop Mongolian government's Tugrik securities market, Golomt Bank, as a major market maker actively, executed the investment orders on the behalf of customers in the primary and secondary market.

Foreign currency trade

In 2014, the value of the Tugrik against the US dollar depreciated by 13.8 percent and the negative sentiment formed in the marketplace. In a time of such uncertainty, Golomt Bank maintained a flow of foreign exchange (FX) in its daily operations and offered our valued customers the opportunities to hedge the foreign currency exchange and payment risk through FX Forward and Swap contracts.

Physical gold trade

In 2014, the Mongolian government initiated many frameworks to encourage gold mine and export, and within those frameworks, the decrease in royalty tax to 2.5 percent was the most significant step. Golomt Bank offered a competitive bid rate for gold bars, extended advance payment against bullions serving corporate and retail customers. As a result, Golomt Bank traded four times more physical gold than previous year and delivered 14 percent of the total gold bought by the Bank of Mongolia.

GOLOMT BANK

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2014

GOLOMT BANK

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	Chairwoman
	Z.Temuun	Member
	Urs E. Schwarzenbach	Member
	D.Munkhtur	Member
	J.Unenbat	Independent Member
	López Abelló	Independent Member
Executive Officers	G.Ganbold	Chief Executive Officer
	L.Bolormaa	EVP, Chief Investment Officer
	L.Oyun-Erdene	EVP, Director of Corporate Banking Division
	B.Enkhtuya	Chief Operating Officer
	N.Tserendavaa	Chief Information Officer
	M.Chimegmunkh	VP, Director of Financial Management Division
	T.Nyamsuren	VP, Director of Credit Division
	B.Munkhbaatar	VP, Director of Treasury Division
	D.Sugar	VP, Director of Business Development Division
	R.Batsuren	Director of Internal Audit Division
	Yo.Purevbat	Director of Operations Division
	U.Khosjargal	Director of Channel Management Division
	B.Erdenebayar	Director of Information Technology Division

GOLOMT BANK LLC AND ITS SUBSIDIARY
Corporate Information (continued)

Registered office	Golomt Bank Head Office of Golomt bank Great Chinggis Khaan's Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia
Auditors	PWC Audit LLC Central Tower, Floor 6, Suite 601 Great Chinggis Khaan's Square, SDB-8 Ulaanbaatar, 14200, Mongolia

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Golomt Bank LLC

We have audited the accompanying consolidated financial statements of Golomt Bank LLC (the "Bank") and its subsidiary Golomt Securities LLC (together referred to as the "Group") and the separate financial statements of the Bank ("together the financial statements"), which comprise the consolidated and the Bank's statements of financial position as at 31 December 2014 and the consolidated and the Bank's statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, respectively.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance over 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 and the Bank's financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Matthew Pottle
Managing Partner
31 March 2015
Ulaanbaatar, Mongolia

PricewaterhouseCoopers Audit LLC, Central Tower Office Building
Suite 601, Floor 6, Great Chingis Khan Square-2, SBD-8, Ulaanbaatar 14200, Mongolia
T: +976 7000 9089 F: +976 (11)322068, www.pwc.com/mn

Golomt Bank

Consolidated Statement of Financial Position

		Group		Bank	
In thousands of Mongolian Tugriks	Note	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Assets					
Cash and balances with central bank (other than mandatory reserve)	7	557,135,627	310,932,806	557,038,818	310,932,590
Mandatory cash balances with the Bank of Mongolia	8	278,718,087	259,809,543	278,718,087	259,809,543
Financial assets at fair value through profit or loss	9	227,942	184,554	227,942	184,554
Due from other banks	10	267,924,182	159,657,425	267,924,182	159,657,425
Loans and advances to customers	11	2,461,920,038	2,199,227,860	2,461,920,038	2,199,227,860
Investment securities available for sale	12	61,020,731	3,194,738	61,020,731	3,194,738
Investment securities held to maturity	13	290,497,306	731,014,385	290,344,064	731,014,385
Investment properties	14	1,209,050	1,209,050	1,209,050	1,209,050
Investment in subsidiary	15	-	-	200,000	200,000
Derivative financial instruments	36	6,086,475	2,550,950	6,086,475	2,550,950
Other assets	16	14,217,002	12,662,284	14,189,348	12,651,699
Current income tax receivable	30	162,627	-	162,627	-
Intangible assets	17	13,809,757	4,638,351	13,809,317	4,637,302
Premises and equipment	18	91,999,909	52,670,047	91,987,116	52,648,556
Repossessed collateral	19	8,315,491	11,887,806	8,315,491	11,887,806
Total assets		**4,053,244,224**	**3,749,639,799**	**4,053,153,286**	**3,749,806,458**
Liabilities					
Due to other banks	20	133,346,664	26,462,940	133,346,664	26,462,940
Customer accounts	21	2,232,083,285	2,161,434,493	2,232,269,586	2,161,778,828
Other borrowed funds	22	1,011,499,028	1,032,319,221	1,011,499,028	1,032,319,221
REPO arrangements	23	251,646,410	167,154,900	251,646,410	167,154,900
Derivative financial instruments	36	-	962,305	-	962,305
Current income tax liability	30	2,930	714,402	-	691,907
Deferred tax liability	30	3,092,793	1,499,173	3,092,793	1,499,173
Provisions for liabilities and charges		-	2,578,818	-	2,578,818
Other liabilities	24	27,396,381	19,678,734	27,310,390	19,621,467
Subordinated debt	25	66,248,404	58,261,173	66,248,404	58,261,173
Deferred revenue		-	6,628,765	-	6,628,765
Total liabilities		**3,725,315,895**	**3,477,694,924**	**3,725,413,275**	**3,477,959,497**
Equity					
Preferred shares	26	25,778,900	16,388,100	25,778,900	16,388,100
Share capital	26	26,217,093	25,907,593	26,217,093	25,907,593
Share premium		44,699,421	42,322,298	44,699,421	42,322,298
Retained earnings		222,858,983	173,488,603	222,670,665	173,390,689
Other reserves		8,373,932	13,838,281	8,373,932	13,838,281
Total equity		**327,928,329**	**271,944,875**	**327,740,011**	**271,846,961**
Total liabilities and equity		**4,053,244,224**	**3,749,639,799**	**4,053,153,286**	**3,749,806,458**

Approved for issue and signed on behalf of the Bank's management on 31 March 2015.

МОНГОЛ УЛС

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

ГОЛОМТ БАНК

GOLOMT BANK

The notes set out on pages 59 to 137 form an integral part of these financial statements.

GOLOMT BANK

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Mongolian Tugriks	Notes	Group 2014	Group 2013	Bank 2014	Bank 2013
Interest income	**27**	338,373,380	290,946,169	338,365,925	290,945,319
Interest expense	**27**	(209,311,862)	(184,695,270)	(209,311,862)	(184,700,730)
Net interest income		**129,061,518**	**106,250,899**	**129,054,063**	**106,244,589**
Provision for loan impairment		(25,777,881)	(27,342,769)	(25,777,881)	(27,342,769)
Net interest income after provision for loan impairment		**103,283,637**	**78,908,130**	**103,276,182**	**78,901,820**
Fee and commission income	28	20,476,440	25,737,817	20,241,175	25,358,165
Fee and commission expense	28	(6,815,563)	(5,442,569)	(6,748,505)	(5,350,053)
Gains less losses from financial assets available for sale		3,514,764	(511,739)	3,514,764	(511,739)
Gains less losses from embedded financial derivatives	25	962,305	209,722	962,305	209,722
Gains less losses from financial assets at fair value through profit or loss		3,320,552	2,550,950	3,320,552	2,550,950
Gains less losses from trading in foreign currencies and precious metals		16,807,266	578,245	16,807,266	578,245
Foreign exchange translation gains less losses		(2,196,297)	37,586,759	(2,197,815)	37,586,759
Impairment of financial assets available for sale		-	(1,005,420)	-	(1,005,420)
Provision for other assets	16	(1,681,412)	(193,556)	(1,681,412)	(193,556)
Provision for repossessed collateral	19	(440,287)	(404,011)	(440,287)	(404,011)
Dividend received		787	4,459	787	4,459
Other operating income		300,323	353,300	296,020	353,243
Administrative and other operating expenses	29	(73,149,736)	(67,183,606)	(73,068,330)	(67,116,014)
Profit before tax		**64,382,779**	**71,188,481**	**64,282,702**	**70,962,570**
Income tax expense	30	(14,464,553)	(14,128,557)	(14,454,882)	(14,105,966)
Profit for the year		**49,918,226**	**57,059,924**	**49,827,820**	**56,856,604**
Other comprehensive (loss)/income:					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
- Gains less losses arising during the year		(813,651)	3,221,262	(813,651)	3,221,262
- Gains less losses reclassified to profit or loss upon disposal or impairment		(3,116,008)	-	(3,116,008)	-
Items that will not be reclassified to profit or loss					
- Revaluation of premises and equipment		-	8,212,178	-	8,212,178
Other comprehensive(loss)/income	**31**	**(3,929,659)**	**11,433,440**	**(3,929,659)**	**11,433,440**
Total comprehensive income for the year		**45,988,567**	**68,493,364**	**45,898,161**	**68,290,044**

The notes set out on pages 59 to 137 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Group							
In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Share-based payment reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
At 31 December 2012		**–**	**25,907,593**	**42,322,298**	**1,872,543**	**61,704**	**–**	**116,428,679**	**186,592,817**
Profit for the year		-	-	-	-	–	-	57,059,924	57,059,924
Other comprehensive income	31	-	-	-	-	**3,221,262**	8,212,178	-	11,433,440
Total comprehensive income for 2013		**–**	**–**	**–**	**–**	**3,221,262**	**8,212,178**	**57,059,924**	**68,493,364**
Issue of preferred shares	26	16,388,100	-	-	-	–	-	-	16,388,100
Share-based payments	40	-	-	-	470,594	–	-	-	470,594
Balance at 31 December 2013		**16,388,100**	**25,907,593**	**42,322,298**	**2,343,137**	**3,282,966**	**8,212,178**	**173,488,603**	**271,944,875**
Profit for the year		-	-	-	-	–	-	49,918,226	49,918,226
Other comprehensive income	31	-	-	-	-	**(3,929,659)**	-	-	(3,929,659)
Total comprehensive income for 2014		**–**	**–**	**–**	**–**	**(3,929,659)**	**–**	**49,918,226**	**45,988,567**
Issue of preferred shares	26	9,390,800	-	-	-	–	-	-	9,390,800
Share issue through options exercise	26	-	309,500	2,377,123	(1,500,000)	–	-	-	1,186,623
Share-based payments		-	-	-	333,349	–	-	-	333,349
Dividends declared and paid	32	-	-	-	-	–	-	(915,885)	(915,885)
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	–	(368,039)	368,039	-
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**1,176,486**	**(646,693)**	**7,844,139**	**222,858,983**	**327,928,329**

The notes set out on pages 59 to 137 form an integral part of these financial statements.

GOLOMT BANK

Consolidated Statement of Changes in Equity

		Attributable to owners of the Bank							
In thousands of Mongolian Tugriks	**Note**	**Preferred shares**	**Share capital**	**Share premium**	**Share-based payment reserve**	**Revaluation reserve for AFS securities**	**Revaluation reserve for premises**	**Retained earnings**	**Total equity**
At 31 December 2012		-	25,907,593	42,322,298	1,872,543	61,704	-	116,534,085	186,698,223
Profit for the year		-	-	-	-	-	-	56,856,604	56,856,604
Other comprehensive income	31	-	-	-	-	3,221,262	8,212,178	-	11,433,440
Total comprehensive income for 2013		**–**	**–**	**–**	**–**	**3,221,262**	**8,212,178**	**56,856,604**	**68,290,044**
Issue of preferred shares	26	16,388,100	-	-	-	-	-	-	16,388,100
Share-based payments	40	-	-	-	470,594	-	-	-	470,594
Balance at 31 December 2013		**16,388,100**	**25,907,593**	**42,322,298**	**2,343,137**	**3,282,966**	**8,212,178**	**173,390,689**	**271,846,961**
Profit for the year		-	-	-	-	-	-	49,827,820	49,827,820
Other comprehensive income	31	-	-	-	-	(3,929,659)	-	-	(3,929,659)
Total comprehensive income for 2014		**–**	**–**	**–**	**–**	**(3,929,659)**	**–**	**49,827,820**	**45,898,161**
Issue of preferred shares	26	9,390,800	-	-	-	-	-	-	9,390,800
Share issue through options exercise	26	-	309,500	2,377,123	(1,500,000)	-	-	-	1,186,623
Share-based payments	40	-	-	-	333,349	-	-	-	333,349
Dividends declared and paid	32	-	-	-	-	-	-	(915,885)	(915,885)
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	368,039	-
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**1,176,486**	**(646,693)**	**7,844,139**	**222,670,665**	**327,740,011**

The notes set out on pages 59 to 137 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

		Group		Bank	
In thousands of Mongolian Tugriks	Note	2014	2013	2014	2013
Cashflows from operating activities					
Profit before tax		64,382,779	71,188,481	64,282,702	70,962,570
Adjustments to:					
Impairment provision for loans and advances to customers	11	25,777,881	27,342,769	25,777,881	27,342,769
Gains less losses from financial assets available for sale		(3,514,764)	511,739	(3,514,764)	511,739
Gains less losses from embedded derivatives		(962,305)	(209,722)	(962,305)	(209,722)
Gains less losses from financial assets at fair value through profit or loss		(3,320,553)	(2,550,950)	(3,320,553)	(2,550,950)
Gain on disposal of properties		(24,860)	-	(24,860)	-
Foreign exchange (gains)/losses		2,196,164	(37,586,759)	2,197,815	(37,586,759)
Provision for other assets	16	1,681,412	193,556	1,681,412	193,556
Impairment loss on available for sale investment		-	1,005,420	-	1,005,420
Depreciation expense	18	7,287,927	6,012,132	7,279,031	6,003,478
Amortisation expense	17	1,975,004	831,642	1,974,395	831,642
Property and equipment written off		17,537	13,508	17,537	13,508
Impairment provision for repossessed collateral	19	440,287	404,011	440,287	404,011
Share-based payment expense	29	333,349	470,594	333,349	470,594
Interest income	27	(338,373,380)	(290,950,778)	(338,365,925)	(290,945,319)
Interest expense	27	209,311,862	184,700,730	209,311,862	184,700,730
Cashflows used in operating activities before changes in operating assets and liabilities		**(32,791,660)**	**(38,623,627)**	**(32,892,134)**	**(38,852,733)**
Increase in mandatory cash balances with the Bank of Mongolia		(18,908,544)	(20,479,723)	(18,908,544)	(20,479,723)
Increase in due from other banks		(567,921)	-	(567,921)	-
Increase in loans and advances		(230,225,070)	(744,930,810)	(230,223,419)	(744,930,810)
Increase in other assets		(930,258)	(1,565,863)	(913,189)	(1,567,735)
Increase in due to banks		107,239,362	146,628,810	107,239,362	146,628,810
Increase in customer account		40,474,732	95,373,833	40,316,695	95,373,833
(Increase)/decrease in to other liabilities		7,698,081	(25,963,205)	7,688,923	(26,020,617)
Net cash used in operating activities before tax and interest		**(128,011,278)**	**(589,560,587)**	**(128,260,228)**	**(589,848,977)**
Tax paid		(13,725,467)	(8,977,714)	(13,715,796)	(8,977,571)
Interest received		304,502,728	286,320,402	304,495,273	286,314,945
Interest paid		(210,928,757)	(175,023,723)	(210,928,757)	(175,023,723)
Net cash used in operating activities		**(48,162,774)**	**(487,241,622)**	**(48,409,507)**	**(487,535,326)**

The notes set out on pages 59 to 137 form an integral part of these financial statements.

GOLOMT BANK

Consolidated Statement of Cash Flows

		Group		Bank	
In thousands of Mongolian Tugriks	Note	**2014**	**2013**	**2014**	**2013**
Cashflows from investing activities					
Acquisition of financial investments		(141,049,957)	(521,130,990)	(140,899,816)	(520,837,286)
Proceeds from disposal of financial investments		203,613,767	479,090,869	203,613,767	479,090,869
Acquisition of premises and equipment	18	(47,139,930)	(15,581,080)	(47,139,732)	(15,581,080)
Proceeds from disposal of premises and equipment		529,662	442,465	529,464	442,465
Acquisition of intangible asset	17	(11,146,410)	(4,668,199)	(11,146,410)	(4,668,199)
Net cash from/(used in) investing activities		**4,807,132**	**(61,846,935)**	**4,957,273**	**(61,553,231)**
Cashflows from financing activities					
Proceeds from issuance of shares		10,577,423	16,388,100	10,577,423	16,388,100
Proceeds from repo arrangements		3,455,153,703	-	3,455,153,703	-
Repayment of repo arrangements		(3,370,788,571)	-	(3,370,788,571)	-
Proceeds from drawdown of other borrowed funds		485,447,395	948,885,898	485,447,395	948,885,898
Repayment of other borrowed funds		(512,068,364)	(45,447,806)	(512,068,364)	(45,447,806)
Repayment of subordinated loans		-	-	-	-
Dividend paid	32	(915,885)	-	(915,885)	-
Net cash from financing activities		**67,405,701**	**919,826,192**	**67,405,701**	**919,826,191**
Net increase in cash and cash equivalent		**24,050,059**	**370,737,635**	**23,953,467**	**370,737,634**
Cash and cash equivalents at the beginning of the period		1,019,688,347	648,950,712	1,019,688,130	648,950,496
Cash and cash equivalents at the end of the period	**7**	**1,043,738,406**	**1,019,688,347**	**1,043,641,597**	**1,019,688,130**

Refer to Notes 3 and 13 for information on the MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

The notes set out on pages 59 to 137 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements – 31 December 2014

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2014 for Golomt Bank ("the Bank") and its subsidiary Golomt Securities LLC ("the Group").

As of 31 December 2014 the Bank's immediate and ultimate parent company is Golomt Financial Group LLC (31 December 2013: Bodi International LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with Mongolian regulations based on the decision of Bodi International LLC in accordance with the legislation of Mongolia. During 2014 Bodi International LLC, the former immediate and ultimate parent of the Bank, has restructured its investment holdings and transferred all shares of the Bank to Golomt Financial Group LLC, a new company registered in Mongolia.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2014 and Bodi International LLC as of 31 December 2013, represents the ultimate controlling party of the Bank as of 31 December 2014 and 31 December 2013.

The Bank's shareholders as of 31 December 2014 and 31 December 2013 are disclosed in Note 26.

The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 granted by the State Registration Office of Mongolia on 5 December 2005. The Bank holds a full banking licenses No. 25 dated 6 March 1995 issued by the Bank of Mongolia ("BOM"), central 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;
- Issuance and trading of securities;
- Financial leasing service;
- Purchase and sales of loans and other financial instruments;
- Custodian banking;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia and other government institutions.

The Bank obtained the Special License for underwriting services from the Financial Regulatory Commission of Mongolia ("FRC") on 2 June 2011 in accordance with the resolution No.163 of Financial Regulatory Commission of Mongolia.

As at 31 December 2014 the Bank had 70 branches within Mongolia (31 December 2013: 66 branches). Also, as at 31 December 2014 the Bank had 28 sub-branches (31 December 2013: 30 sub-branches).
The number of Bank employees as at 31 December 2014 was 1,862 (31 December 2013: 1,731).
The Bank's registered office and principal place of business is: Great Chinggis Khaan's Square 5, P.O.Box 22, Ulaanbaatar 15160, Mongolia.

Golomt Securities LLC (the "Subsidiary"), was incorporated as a limited liability company in accordance with Mongolian regulations and the Bank's decision No.1 dated 17 May 2011. The Subsidiary is fully owned by the Bank.

1 Introduction (continued)

The Subsidiary obtained State Registration Certificate No. 9011287134 with registration No.5481589 issued by the State Registration Office of Mongolia on 2 November 2011. The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 2 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 Group

2.1 General

The Mongolian economy displays many characteristics of an emerging market, including non-convertibility of the national currency to foreign currencies, as well as relatively high inflation and interest rates. For most of the international investors Mongolia is considered a less developed nation with huge growth potential.

After recording steady growth in 2010 and 2011, the Mongolian economy has shown signs of a slowdown in 2012 and 2013 due to declining global commodities prices, concerns over slowing growth in China and changes to the Mongolian Foreign Investment Law made in 2012 which have slowed inbound foreign investment into the country. The slowdown of the economy continued in 2014 resulting in the country being downgraded from B1 to B2 by Moody's rating agency in July 2014, and subsequent downgrade of major commercial banks from B1 to B2 and B3. The economy is further adversely affected by significant decline in global commodity prices that took place in the last quarter of 2014 and early 2015, and further slowdown of the Chinese economy during 2014 and early 2015.

On 3 October 2013, the Mongolian Parliament passed the Law on Investment and the Law on Implementation of the Law on Investment (effective from 1 November 2013). Following the issuance of the new laws, the Law of Mongolia on Foreign Investment and the Strategic Entities Foreign Investment Law (SEFIL) were cancelled. The purpose of the Law on Investment is to protect the legitimate rights and interests of the investors in the territory of Mongolia, establish the common legal guarantee for investment, support investment, stabilise tax environment, determine the powers of the state organisations, and rights and obligations of the investor and regulate other relations concerning investments.

The struggle to find the optimal path in making use of abundant resources has become a big challenge for Mongolia. In case of success, not only the lives of its citizens will naturally be improved, but also the Mongolian economy will be able to provide a stable and fair business environment for investors. The Government of Mongolia is currently trying to implement reforms, such as transparency in accounting and financial practices of public organizations, cost reduction, development of high-technology production, and enhancement of labour productivity and competitiveness of national products on international markets. In addition, the Government of Mongolia is trying support foreign investments and improve the business environment.

What policies the government of Mongolia will undertake in order to stabilize the economy remain to be seen, but the future of the Mongolian economy is hugely dependent upon the effectiveness of fiscal and monetary policy. According to the Bank of Mongolia, the monetary policy for 2015 intends to provide external economic balance, keeping inflation at a low and stable level, strengthen economic stabilization and create an environment for balanced and sustainable medium to long term economic growth.

The legal, tax and regulatory frameworks continue to develop and frequent changes are being made. In particular, the tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes (refer to Note 35). The future economic performance of Mongolia is tied to the continuing demand from China and prices for commodities and is also dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal regulatory and political developments.

Current uncertainty in world economics, volatility of financial markets, decline in global prices of commodities, slowdown of growth of Chinese economy, slowdown of Mongolian economy and other potential risks could have a significant negative effect on Mongolian financial and corporate sectors. In accordance with IFRS, the Bank's management has determined loan impairment provisions using the "incurred loss" model. Recognition of impairment losses that arose from past events is required and the recognition of impairment losses that could arise from future events is prohibited. These future events include for example future changes in the economic environment. Impairment losses that could arise from future events cannot be recognized, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

Management is unable to predict all developments, which could have an impact on the Mongolian economy, and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

2.2 Inflation

Mongolian economy continues to experience relatively high inflation rate. The inflation indices for the last six years are given in the table below:

Year ended	Inflation for the period
31 December 2014	11.00
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

2.3 Currency transactions

Foreign currencies, particularly, US Dollar and EUR, play an important role in the underlying economics of many business transactions in Mongolia. The table below shows exchange rate of MNT relative to USD and EUR as set by the Central Bank of Mongolia.

Date	USD	EUR
31 December 2014	1,885.60	2,293.36
31 December 2013	1,654.10	2,275.63
31 December 2012	1,392.10	1,835.83
31 December 2011	1,396.37	1,806.76
31 December 2010	1,256.47	1,662.31
31 December 2009	1,442.84	2,071.34

3 Basis of presentation

3.1 General principles

These consolidated financial statements of the Group and the separate financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss.

The Group and the Bank maintain its accounting records in accordance with the applicable legislation of Mongolia. The Group's consolidated financial statements and the Bank's separate 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. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out in Note 4.

As per requirements of the regulator BOM for submission of the separate financial statements of the banks, information disclosed in the Notes to these consolidated and separate financial statements represent the amounts and other disclosures related to both the Group's and the Bank's assets, liabilities, equity, income and expenses. In case when the Bank's and the Group's amounts differ, separate notes related to the Group's balances and transactions are disclosed.
3.2 Functional and presentation currency

3.2 Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiary, and the Group's presentation currency, is the national currency of Mongolia, Mongolian Tugriks ("MNT"). The presentation currency of both the Bank and its subsidiary is MNT. All values in these consolidated and separate financial statements are rounded to the nearest thousands, except otherwise indicated.

3.3 Critical accounting estimates and judgments in applying accounting policies

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the reporting date and within next financial year, disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of income and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

(i) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 20% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MNT 15,396,332 thousand (2013: MNT 11,511,011 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

(ii) Revaluation of premises and investment properties

Prior to 2013, the Group carried its premises and investment properties at cost less accumulated depreciation. As disclosed in Notes 4, 14 and 18, in 2013 the Group changed its accounting policy and commenced using revaluation model for premises and fair value model for investment properties. The Group engaged independent valuation specialists to determine fair value of its buildings and investment properties as at 31 December 2013. The basis used for the appraisal was market value for premises and investment properties based on comparable market data. For total fair value of the Group's premises and investment properties as of 31 December 2013, based on observable market prices in the active market, refer to Notes 14 and 18.

Based on the assessment of conditions on the Mongolian real estate market as of 31 December 2014, and other available information affecting the value of the Group's premises and investment properties, including impact of current developments in operating environment in Mongolia (Note 2), management believes there were no significant movements in the market value of the Group's buildings as of 31 December 2014 compared to 31 December 2013. Further, significant acquisitions of buildings in 2014 relate to purchases of buildings done on an arm-length basis, which are therefore reflective of actual market prices effective during 2014 and as of the end of reporting period.

If average prices of premises would be 10% higher/(lower) compared to the current carrying value, carrying value of buildings would increase/(decrease) by approximately MNT 5,992,900 thousand as of 31 December 2014 (31 December 2013: MNT 2,217,549 thousand). The impact of changes in prices of investment properties is unlikely to be material.

(iii) Legal claims and other contingent liabilities

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. Further, Mongolian tax, currency and customs legislation is subject to varying interpretations (refer to Note 35).

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. As disclosed in Note 35, based on all information available as of the date of approval of these financial statements, management believes that the Group's position in case of litigations is defendable and that it unlikely that any significant loss will be incurred, as well as that its interpretation of the relevant legislation is appropriate and the Bank's positions related to tax and other legislation will be sustained.

(iv) Borrowings from government organizations, central bank, and international financial institutions

The Bank obtains long term financing from Mongolian government organizations, including state-owned Development Bank of Mongolia, the Bank of Mongolia, and international financial institutions at interest rates at which they ordinarily lend and which may be lower than rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at market rates and no initial recognition gains or losses should arise. In making this judgment management also considers that these instruments are a separate principal market (i.e. market segment). This management's judgment is also applicable to the received funds from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 4% p.a., which are used for financing mortgage loans at advantageous rates of 8% p.a. defined by the Bank of Mongolia, and funds received from the Bank of Mongolia under Price Stabilization Program.

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 1,011,499,028 thousand as at 31 December 2014 (31 December 2013: MNT 1,032,319,221thousand) and are disclosed in Note 22.

3 Basis of presentation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies

(iv) Borrowings from government organizations, central bank, and international financial institutions (continued)

As disclosed in Note 22, under the program for financing the construction sector, the Bank is obliged to use received funds for issuance of loans that meet specific criteria (companies engaged in construction of apartment buildings, specific ratio criteria set by the Bank of Mongolia). The Bank has discretionary rights to determine interest rates on loans issued to customers under this program, and interest rates on related loans to customers are not significantly different from market interest rates for construction loans, i.e. from interest rates on loans issued from the Bank's other lending sources. As a result, the above funding meets the condition of government grant in accordance with IAS 20 due to existence of specific conditions (specific criteria for lending, requirement of return and paying higher interest for unused portion, BOM representing extension of the Government of Mongolia etc.). Management made a judgment that the policy rate of the Bank of Mongolia of 10.5% p.a. at the time of origination of these borrowings represents the best approximation of market interest rate on MNT funding. The details on this arrangement and amounts of government grants as of 31 December 2014 and 31 December 2013 are disclosed in Note 22.

(v) Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

During 2013 and 2014, the Bank participated in three tranches of MIK securitisation transaction. The Bank sold the 8% mortgage loans to MIK SPC1, MIK SPC2 and MIK SPC3, special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 4.5% and Junior RMBS notes bearing interest at 10.5%. The loans have been purchased by abovementioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e. MIK. On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 4% funding received from the Bank of Mongolia for financing the original 8% mortgage lending.

Management considered whether these loans have met the derecognition criteria set out in IAS 39 AG36. Management's judgement is that although the rights to the cash flows have not expired, the Bank has transferred its right to receive the cash flows from these 8% Mortgage Assets and that substantially all the risks and rewards have been transferred. In making this judgement management has considered that the risk profile of the collective or commingled pool of loans from different banks is materially different from the risk profile of the loans it sold due to different borrowers, obligors and locations of mortgaged assets. Management has also considered whether gains or losses should arise on initial recognition of such instruments.

As the transactions were entered into by willing market participants, management's judgement are that these instruments are at market rates and no initial recognition gains or losses should arise. In making this judgement management also considers that these instruments are a separate market segment (i.e. separate principal market).

(vi) Investment in Investment Fund

As disclosed in Note 12, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2014 the Bank owns 10% of investment units of this Fund, while 90% of investment units have not been yet sold as of the date of approval of these financial statements. Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements. In making this judgment, management has considered the following:

- the Fund is managed by managing company which is not related to the Bank's owners or management, and the Bank has no right or ability to replace the managing company as of 31 December 2014;
- the managing company of the Fund is actively seeking additional investors for remaining 90% units in present, and if additional investors are not found, it is unlikely that the Fund would continue operating;
- further, by the contract and the law, Golomt Bank and other investors are prohibited to influence the decision and operation of management company's investment fund and influence its independence;

- maximum loss that Golomt Bank can make is to lose its own invested money, but there are no guarantees or obligations to cover losses of other investors. In terms of returns, they are related to Golomt Bank's own purchased investment units i.e the Bank is not entitled to any rewards related to the investment made by other investors;
- the Bank is not involved in approving investments made by the fund and the managing company of the fund can decide to make investment in other types of assets, and no approval of the Bank is needed for such decision.

(vii) 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 and information on the management of liquidity risk is described in Note 33.

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 minimizes the Group's dependence on any source and ensures 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. Further, as disclosed in Note 33, substantial portion of customer demand accounts and savings accounts represent stable long-term source of financing, based on the past experience. In addition, in making the judgement that the Group will continue as a going concern in the foreseeable future, management considered sufficient capitalisation of the Group (Note 34), availability of financing from its parent company, including possibilities for extension of maturity of subordinated debt, substantial amount of liquid financial assets, which can be realised within one month, as well as other factors disclosed in detail in Note 33.

(viii) Deferred taxation on financial derivatives and foreign exchange translation differences.

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives are treated as non-taxable income and non-deductible expenses until they become realized, thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 1,521,619 thousand is recognized as of 31 December 2014 (31 December 2013: MNT 586,256 thousand), refer to Note 30.

In making this judgment management considered IFRS principles, nature of transactions, tax legislation governing similar transactions (such as tax treatment of gains and losses arising from foreign currency transactions and translation of financial assets denominated in foreign currency), current practices of tax authorities, including results of previous tax inspections, and practices applied in the banking sector, including practicability of differentiation between realized and unrealized gains and losses. Given that tax legislation and supporting regulations do not explicitly address tax treatment of the realized and unrealized gains and losses from financial derivatives and require differentiation of unrealized and realized foreign exchange gains on all financial assets and liabilities for tax purposes, management has assessed the risk that tax authorities may take different position and treat unrealized gains from open derivative positions as taxable income or otherwise challenge the Group's accounting policy (Note 4) and tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, management believes that such risk is remote. For more details on income tax, refer to Note 30. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 35.

3 Basis of presentation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

(ix) Deferred taxation arising on differences between IFRS and the regulations of the Bank of Mongolia. (continued)

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e. delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax any impairment provision charges for the performing loans represent non-deductible expenses for the period, while impairment provision charges on loans classified in other categories represent deductible expenses for the period. As in previous periods the Bank has determined impairment provision on performing loans as of 31 December 2014, as a part of its assessment of impairment provision in accordance with IFRS requirements, and treated related impairment provision charges as non-deductible expenses. Management has performed detailed review of the accounting and tax treatment of charges and releases of impairment provision on performing loans and has concluded that such items represent temporary difference and thus related deferred tax asset of MNT 808,016 thousand (31 December 2013: MNT 753,159 thousand) has been recognized in these financial statements. Management's view is that income from release of provision on performing loans represents non-taxable income and that related deferred tax asset is recoverable in the future. Given that tax regulations do not explicitly address tax treatment of income from release of provision on performing loans and that Mongolian tax regulations can be subject to different interpretations (refer to Note 32), management has assessed the risk that tax authorities may take different position and treat income from release of impairment provision as taxable income, in which case recognized deferred tax asset would not be recoverable. However, based on all available information at the date of issuance of these financial statements, management believes that such risk is remote.

Similarly, in accordance with the abovementioned regulations of the Bank of Mongolia, interest income on loans overdue more than 90 days should not be recognized in the Bank's profit or loss account, which is not in line with IFRS treatment. As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns. As a result, the Bank has recognized deferred tax liability of MNT 3,941,902 thousand as of 31 December 2014 (31 December 2013: MNT 5,247,586). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Group's tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote.

For more details on income tax, refer to Note 30. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 35.

4 Summary of significant accounting policies

The following significant accounting policies were adopted in preparation of these consolidated financial statements of the Group and the Bank. These policies have been consistently applied to all the periods presented unless otherwise stated (refer to Note 5).

4.1 Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

4.2 Financial assets

The Group classifies its financial assets in the following categories:

- Cash and cash equivalents (Note 4.4 and 4.5)
- Financial assets at fair value through profit or loss (Note 4.6);
- Loans and receivables (Note 4.7 and 4.8);
- Financial assets held to maturity (Note 4.9);
- Financial assets available for sale (Note 4.10).

For presentation of financial assets by measurement category refer to Note 38.

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. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

(i) Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

(i) Key measurement terms

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

(i) Key measurement terms (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 37.

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

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

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

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

(ii) Initial recognition of financial assets

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

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

(iii) Derecognition of financial assets

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

4.3 Foreign currency transactions

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Bank of Mongolia ("BOM") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the BOM, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

	2014	2013
Mongolian national Tugriks/US Dollar		
At 31 December	1,885.60	1,654.10
Mongolian national Tugriks/EURO		
At 31 December	2,293.36	2,275.63
Mongolian national Tugriks/British Pound Sterling		
At 31 December	2,927.58	2,728.02
Mongolian national Tugriks/Chinese Yuan		
At 31 December	303.57	272.88
Mongolian national Tugriks/Russian Ruble		
At 31 December	33.25	50.56

4.4 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central Bank (Bank of Mongolia), other than required mandatory reserve, the Bank of Mongolia and Government treasury bills, and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

4.5 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.

4.6 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 profit or loss and other comprehensive income. Dividends are recognised in the consolidated statement of profit or loss and other comprehensive 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 profit or loss and other comprehensive 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 primarily include foreign exchange contracts such as forward rate agreements and currency swaps. Derivative financial instruments represent financial assets at fair value through profit or loss and are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments, such as subordinate debt agreements, are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. Refer to Note 25. Changes in fair value of these embedded derivatives are presented in the separate line in the Consolidated Statement of profit or loss and other comprehensive income.

4.7 Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

4.8 Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

4.9 Investments securities held to maturity

This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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

4.10 Investment securities available for sale

This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

4.11 Promissory notes purchased

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

4.12 Impairment of financial assets

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have 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 exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

4 Summary of significant accounting policies (continued)

4.12 Impairment of financial assets (continued)

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
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, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

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

4.13 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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 expired.

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

4.14 Financial liabilities carried at amortised cost

Due to other banks - Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Other borrowed funds - Other borrowed funds include loans obtained from international financial institutions and Mongolian government organizations, and promissory notes issued. These financial liabilities are carried at amortized cost using the effective interest rate method.
Subordinated debts - Subordinated debts are carried at amortized cost using the effective interest rate method. When subordinated debt agreements contain conversion options that meet definition of embedded derivative, these derivatives are separately valued at each reporting date and the change in fair value of derivatives is recognised in profit or loss account. Refer to Note 25.
Trade and other payables - Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

4.15 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is recognised in the Statement of financial position within line 'Repurchase agreements'.
Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income in the statement of profit or loss and other comprehensive income and accrued over the life of repo agreements using the effective interest rate method.

4.16 Premises and equipment

Premises are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revalued amounts of the Group's premises is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Group applies revaluation model for premises since 2013. During 2012 and previous years, the cost model was used. Refer to Notes 3 and 18.

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

4.16 Premises and equipment (continued)

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).
Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

- Buildings - 40 years;
- Motor vehicles - 10 years;
- Furniture - 10 years;
- Equipment, computers and other fixed assets - from 3 to 10 years;
- Leasehold improvements - shorter of useful life and the term of the underlying lease.

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

4.17 Investment property

Investment property includes 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 process of providing services or for administrative purposes.

Investment property is initially measured at fair value, which is the purchase price plus any directly attributable expenses. Investment properties are subsequently measured at fair value, which reflects market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss account in the year they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss in the year they arise.

Investment property is derecognized upon its sale or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss arising on its de-recognition of investment property is recognized in the profit or loss account in the year of its de-recognition.

Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Group applies fair value model for valuation of investment properties since 2013. During 2012 and previous years, the cost model was used. Refer to Note 14.

4.18 Intangible assets

The Group's intangible assets have definite useful life and primarily include capitalised computer software licenses, and land use rights. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets with finite lives are amortised on straight-line basis 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 are reviewed at least at each financial year-end. The estimated useful lives of intangible assets are as follows:

- Software licenses - 3 years;
- Land use rights - period of land use rights.

4.19 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

4.20 Share capital, including preferred shares

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

4.21 Share premium

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

4.22 Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The basis for distribution of dividends is statutory retained earnings.

4.23 Contingent assets and liabilities

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

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

4.24 Credit related commitments

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

4 Summary of significant accounting policies (continued)

4.25 Provisions

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

4.26 Government grants

The benefit of borrowings from the Bank of Mongolia (acting as an extension of the Government) at a below-market rate of interest is treated as a government grant. The borrowing is measured at amortized cost using market interest rate and recognized within other borrowed funds. The benefit of the below-market rate of interest (i.e. gain on initial recognition of the borrowing) is measured as the difference between the initial carrying value of the borrowing determined in accordance with IAS 39 and the proceeds received, is recognized as government grant income and deferred over the period of the borrowing. Related grant income is recognized in profit or loss on a systematic basis using the effective interest rate method over the period of borrowing. Grant income is netted off against interest expenses.

The amount of liabilities for government grants are included in the line 'Other borrowed funds', as management has assessed that related amounts are not material and therefore separate presentation on the Statement of financial position is not required.

4.27 Fiduciary Assets

Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

4.28 Taxation

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income or directly in equity.
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 and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction when initially recorded affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted by the Company. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 30). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

4.29 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. 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 also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Group.

4.30 Income and expense recognition

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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

4.31 Repossessed collateral

Repossessed collateral (foreclosed assets) represents financial and non-financial assets acquired by the Group in settlement of overdue loans, which include immovable property (e.g. premises) and movable property (cars, equipment, inventories), as well as financial assets such securities. The assets are initially recognised at fair value when acquired and included in the line 'Repossessed collateral' in the Statement of Financial Position. Depending on their nature and the Group's intention in respect of recovery of these assets, these assets are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

In case of non-financial assets, if the Group's management makes decision to use acquired immovable property for in its own business activities, the Group reclassifies repossessed collateral such as premises to line 'Premises and Equipment' and account for it in accordance with the accounting policy for property and equipment (Note 4.17). If the Group decides to keep premises in its ownership in order to earn rental income or for capital appreciation, or both, and not to occupy premises by the Group, the Group reclassifies repossessed collateral to line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.18). In case the Group makes decision to sell its movable and/or immovable properties acquired as repossessed collateral, the Group applies the accounting policy for inventories and keep them in line 'Repossessed collateral' on the face of the Statement of financial position unless IFRS 5 criteria are met and these assets represent assets held for sale. For details on non-financial repossessed assets, which are planned to be sold, refer to Note 19.

4 Summary of significant accounting policies (continued)

4.31 Repossessed collateral (continued)

In case of repossessed collateral in the form of financial asset (such as securities), which value will be recovered through sale, the Group recognises them within line 'Repossessed collateral' and classifies them for IFRS measurement purposes as securities available for sale and measures them at fair value. Fair value of repossessed financial collateral (securities) is determined on each reporting date and changes in fair value recognised within 'Revaluation reserve for AFS securities' within equity. The accounting policy relevant for financial assets available for sale is given in Note 4.10. For details on financial repossessed assets, refer to Note 19.

4.32 Renegotiated loans

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

4.33 Share–based payments

The Group recognises the services received or acquired in a share-based payment transaction when the services are received. The Group recognises a corresponding increase in equity if the services were received in an equity-settled share-based payment transaction or a liability if the services were acquired in a cash-settled share-based payment transaction.

For equity-settled share-based payment transactions with service providers, the Group measures services received, and the corresponding increase in equity indirectly, by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, the Group measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

4.34 Changes in presentation

Where necessary corresponding figures have been adjusted to conform to the presentation of the current year amounts. The following improvements in presentation have been made:

- Provision for other assets and provision for credit related commitments are presented as separate lines in the Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Related expenses were presented in line 'Provision for impairment of other assets, credit and non-credit related commitments' in the Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013.
- Certain lines in the Consolidated statement of financial position and the Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 were renamed without changes of amounts.

The abovementioned improvements were reflected in the Consolidation Statement of Cash Flows and Separate Statement of Cash Flows for the year ending 31 December 2014. Management also decided to make certain other improvements in the Consolidated Statement of Cash Flows and Separate Statement of Cash Flows for the year ending 31 December 2014. Management considered materiality from the perspective of the users of financial statements, and concluded that detailed disclosures of effect of these improvements on information presented in the related Notes and on each financial statement line item of Consolidated Statement of Cash Flows are not necessary, as omission of this information could not materially affect the decisions of the users of financial statements.

4.35 Amendments of the financial statements after issue

The Bank's shareholders and management have the power to amend the financial statements after issue.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgments made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Group.

FRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Group.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Group.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

6 New Accounting Pronouncements (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group is currently assessing the impact of the amendments on its financial statements.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its financial statements]

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Group is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.

6 New Accounting Pronouncements (continued)

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's [consolidated] financial statements.

7 Cash and Cash Equivalents

Cash and balances with central bank (other than mandatory reserve)

	Group		Bank	
In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Cash on hand	100,664,369	94,632,268	100,567,560	94,632,052
Current account with the Bank of Mongolia (other than mandatory reserve)	456,471,258	216,300,538	456,471,258	216,300,538
Cash and cash balances with central bank	**557,135,627**	**310,932,806**	**557,038,818**	**310,932,590**

Cash and balances with central bank (other than mandatory reserve) are not collateralised. All amounts are neither past due nor impaired as of 31 December 2014 and 31 December 2013. The Bank of Mongolia has a B2 rating from Moody's.

Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 33.

Cash and cash equivalents for the purposes of the cash flow statement are presented below:

Cash and cash equivalents

	Group		Bank	
In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Cash and balances with the central banks (Note 7)	557,135,627	310,932,806	557,038,818	310,932,589
Due from banks (Note 10)	267,284,933	159,657,425	267,284,933	159,657,425
Bank of Mongolia treasury bills (Note 13)	209,591,218	549,098,116	209,591,218	549,098,116
Government treasury bills (Note 13)	9,726,628	-	9,726,628	-
Total cash and cash equivalents	**1,043,738,406**	**1,019,688,347**	**1,043,641,597**	**1,019,688,130**

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Mandatory cash balances with the Bank of Mongolia	278,718,087	259,809,543
Mandatory cash balances with the Bank of Mongolia	**278,718,087**	**259,809,543**

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% (2013: 12.0 %) of customer deposits for a period of 2 weeks. As the above balances equate the Bank's and the Group additional disclosure is not required.

9 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represents investments in several equity securities quoted on the Hong Kong, Toronto and New York Stock Exchanges.

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 2014 and 2013:

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Fair value as at 1 January	**184,554**	**520,464**
Acquisitions	99,218	-
Effect of exchange rate changes	159,142	175,829
Fair value loss from change in net market value	(214,972)	(511,739)
Fair value as at 31 December	**227,942**	**184,554**

As these securities are carried at fair value based on observable market data (prices from respective stock exchanges), the group does not analyse or monitor impairment indicators. As the above balances equate the Bank's and the Group additional disclosure is not required.

10 Due from Other Banks

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Correspondent accounts with other banks		
Domestic	12,050,621	5,078,753
Foreign	179,606,349	145,754,357
Short term placements of other banks		
Domestic	75,658,290	30,313
Foreign	-	8,270,684
Placements with other banks with original maturities of more than three months	608,921	523,318
Total due from other banks	**267,924,182**	**159,657,425**

Amounts due from other banks are not collateralised. The credit ratings are based on Standard & Poor's ratings where available, or Moody's and/or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale. Analysis by credit quality of amounts due from other banks outstanding is as follows:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Neither past due nor impaired		
AA-	57,294,804	39,045,292
A+	7,985,477	18,979,265
A	74,676,504	66,609,167
A-	25,151,220	24,262,248
BBB+	4,426,915	2,924,097
BBB	3,626,232	1,744,673
BB+	245,882	-
BB	3,756,909	-
B+	-	213,654
B	88,779,886	5,878,303
Unrated	1,980,354	726
Total neither past due nor impaired	**267,924,182**	**159,657,425**

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 33.

11 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Corporate loans	1,164,191,875	963,588,386
Consumer loans to individuals	197,177,121	172,817,915
Loans to small and medium business	554,558,265	634,592,067
Mortgage loans to individuals	622,974,437	485,784,545
Total gross loans and advances to customers	**2,538,901,698**	**2,256,782,913**
Less: Provision for loan impairment	(76,981,660)	(57,555,053)
Total loans and advances to customers	**2,461,920,038**	**2,199,227,860**

The aggregate amount of loans to the 30 biggest customers amounted to MNT 814,405,751 thousand (31 December 2013: MNT 815,408,460 thousand) and represents 31.9% (31 December 2013: 36.2%) of total loans and advances to customers at 31 December 2014. As the above balances equate the Bank's and the Group additional disclosure is not required.

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Provision for loan impairment at 1 January 2014	**45,841,017**	**2,063,664**	**9,430,834**	**219,538**	**57,555,053**
(Recovery of)/provision for impairment during the year*	10,565,749	397,569	13,763,027	1,051,536	**25,777,881**
Exchange difference	362,555	727,828	1,734,277	-	**2,824,660**
Amounts written off during the year as uncollectible	(7,588,441)	(317,281)	(1,237,783)	(32,429)	**(9,175,934)**
Provision for loan impairment at 31 December 2014	**49,180,880**	**2,871,780**	**23,690,355**	**1,238,645**	**76,981,660**

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Provision for loan impairment at 1 January 2013	**16,935,990**	**291,100**	**8,448,258**	**273,893**	**25,949,241**
(Recovery of)/provision for impairment during the year	25,771,676	1,832,542	(144,238)	(117,211)	**27,342,769**
Exchange difference	3,133,351	71,756	1,155,835	62,856	**4,423,797**
Amounts written off during the year as uncollectible	-	(131,734)	(29,021)	-	**(160,754)**
Provision for loan impairment at 31 December 2013	**45,841,017**	**2,063,664**	**9,430,834**	**219,538**	**57,555,053**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2014		**2013**	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Mortgage & House maintenance.	622,974,437	24.54%	485,801,607	21.53%
Manufacturing	392,218,432	15.45%	289,325,032	12.82%
Mining & Exploration	264,470,798	10.42%	257,783,816	11.42%
Construction	242,971,931	9.57%	209,297,917	9.27%
Trade - Whole & Retail	210,326,761	8.28%	220,621,902	9.78%
Salary & Consumption	180,584,629	7.11%	166,129,940	7.36%
Electricity & Oil	150,886,448	5.94%	178,415,942	7.91%
Real estate	98,224,022	3.87%	80,313,586	3.56%
Finance	81,665,181	3.22%	61,619,030	2.73%
Agriculture	64,061,373	2.52%	54,213,516	2.40%
Transport & Comm.	57,849,209	2.28%	42,060,104	1.86%
Tourism	42,726,221	1.68%	41,676,617	1.85%
Infrastructure	26,231,413	1.03%	42,295,242	1.87%
Maintenance	24,489,574	0.96%	30,579,055	1.35%
Healthcare	20,368,107	0.80%	16,711,918	0.74%
Hotel & Restaurant	20,063,947	0.79%	33,573,138	1.49%
Social services	18,203,961	0.72%	17,780,748	0.79%
Home appliances	9,686,200	0.38%	1,728,337	0.08%
Car	6,904,957	0.27%	8,993,506	0.40%
Education	2,988,761	0.12%	17,358,844	0.77%
Public service	517,260	0.02%	191,552	0.01%
Entrepreneurship	484,860	0.02%	305,527	0.01%
International organ.	3,216	0.00%	6,037	0.00%
Total loans and advances to customers (before impairment)	**2,538,901,698**	**100%**	**2,256,782,913**	**100%**

GOLOMT BANK

11 Loans and Advances to Customers (continued)

Information about collateral at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	Corporate loans	Consumer loans to individuals	Loans to small and medium business	Mortgage loans to individuals	Total
Loans collateralised by:					
- residential real estate	328,300,175	3,512,426	280,022,814	593,221,812	1,205,057,227
- other real estate	201,911,998	141,375	37,453,986	1,095,300	240,602,659
- tradable securities	134,071,800	-	18,399,902	-	152,471,702
- cash deposits	175,104,531	33,199,227	27,780,845	1,408,642	237,493,245
- other assets	324,803,371	5,363,179	190,900,718	27,248,683	548,315,951
Unsecured loans	-	154,960,914	-	-	154,960,914
Total loans and advances to customers	**1,164,191,875**	**197,177,121**	**554,558,265**	**622,974,437**	**2,538,901,698**

Information about collateral at 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Loans collateralised by:					
- residential real estate	273,503,253	3,589,458	350,690,333	459,162,718	1,086,945,762
- other real estate	167,745,293	96,635	79,468,876	1,185,489	248,496,293
- tradable securities	89,210,450	-	27,469,309	-	116,679,759
- cash deposits	179,841,286	32,369,928	43,163,989	2,837,913	258,213,086
- other assets	253,288,104	11,322,322	133,799,560	22,598,425	421,008,411
Unsecured loans	-	125,439,572	-	-	125,439,572
Total loans and advances to customers	**963,588,386**	**172,817,915**	**634,592,067**	**485,784,545**	**2,256,782,913**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures.

Unsecured loans mostly consist of and salary loans. Even though for these loans the Group doesn't require separate collateral, the Group pledges and controls future pension and salary payments of the borrowers. The main requirement or pre-requisite for obtaining a pension or unsecured salary loan from the Group is to receive pension payments from the Government or salary payroll through the Group's account.

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Corporate loans**	**Consumer loans to individuals**	**Loans to small and medium business**	**Mortgage loans to individuals**	**Total**
Neither past due nor impaired					
Excellent	613,542,462	171,273,067	374,140,980	584,489,304	1,743,445,813
Good	59,608,632	808,648	16,207,237	7,208,618	83,833,135
Restructured	224,807,819	80,612	44,716,233	140,366	269,745,030
Total neither past due nor impaired	**897,958,913**	**172,162,327**	**435,064,450**	**591,838,288**	**2,097,023,978**
Past due but not impaired					
- less than 30 days overdue	63,914,236	14,093,643	14,599,900	22,698,939	115,306,718
- 30 to 90 days overdue	16,962,015	3,911,898	14,519,533	4,571,427	39,964,873
- 91 to 180 days overdue	49,845,631	2,102,176	5,744,789	1,151,280	58,843,876
- 181 to 360 days overdue	26,072,045	1,703,241	27,026,745	2,051,008	56,853,039
- over 360 days overdue	-	3,203,836	16,884,471	663,495	20,751,802
Total past due but not impaired	**156,793,927**	**25,014,794**	**78,775,438**	**31,136,149**	**291,720,308**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	998,796	-	-	-	998,796
- 30 to 90 days overdue	-	-	33,294	-	33,294
- 91 to 180 days overdue	19,805,086	-	107,748	-	19,912,834
- 181 to 360 days overdue	26,866,823	-	34,317,476	-	61,184,299
- over 360 days overdue	61,768,330	-	6,259,859	-	68,028,189
Total individually impaired loans (gross)	**109,439,035**	**–**	**40,718,377**	**–**	**150,157,412**
Less impairment provisions	**(49,180,880)**	**(2,871,780)**	**(23,690,355)**	**(1,238,645)**	**(76,981,660)**
Total loans and advances to customers	**1,115,010,995**	**194,305,341**	**530,867,910**	**621,735,792**	**2,461,920,038**

11, Loans and Advances to Customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Neither past due nor impaired					
Excellent	758,458,788	162,274,250	542,430,879	449,603,472	1,912,767,390
Good	3,899,285	1,166,334	24,898,765	18,846,536	48,810,920
Restructured	115,282,516	73,762	1,224,043	1,711,022	118,291,342
Total neither past due nor impaired	**877,640,589**	**163,514,346**	**568,553,687**	**470,161,030**	**2,079,869,651**
Past due but not impaired					
- less than 30 days overdue	-	2,533,219	7,417,429	10,708,521	20,659,169
- 30 to 90 days overdue	14,180,282	1,791,572	5,001,967	3,068,365	24,042,186
- 91 to 180 days overdue	-	1,132,512	10,432,127	243,641	11,808,280
- 181 to 360 days overdue	-	1,553,329	1,418,099	766,284	3,737,712
- over 360 days overdue	-	1,808,014	1,155,231	202,185	3,165,430
Total past due but not impaired	**14,180,282**	**8,818,646**	**25,424,853**	**14,988,996**	**63,412,777**
Loans individually determined to be impaired					
- less than 30 days overdue	-	-	14,104,851	-	14,104,851
- 30 to 90 days overdue	-	-	-	418,358	418,358
- 91 to 180 days overdue	-	-	424,270	216,162	640,431
- 181 to 360 days overdue	4,578,514	235,370	11,093,347	-	15,907,230
- over 360 days overdue	67,189,001	249,552	14,991,060	-	82,429,614
Total individually impaired loans (gross)	**71,767,515**	**484,922**	**40,613,528**	**634,519**	**113,500,484**
Less impairment provisions	**(45,841,017)**	**(2,063,664)**	**(9,430,834)**	**(219,538)**	**(57,555,053)**
Total loans and advances to customers	**917,747,369**	**170,754,251**	**625,161,233**	**485,565,007**	**2,199,227,860**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2014:

In thousands of Mongolian Tugriks	**Over-collateralised Assets**		**Under-collateralised Assets**	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,108,202,014	2,760,385,624	55,989,861	27,795,552
Consumer loans to individuals	39,755,737	103,028,437	157,421,384	1,929,790
Loans to small and medium business	466,272,050	1,474,836,065	88,286,215	62,348,400
Mortgage loans to individuals	622,363,337	1,188,829,728	611,100	450,000
Total	**2,236,593,138**	**5,527,079,854**	**302,308,560**	**92,523,742**

The effect of collateral at 31 December 2013:

In thousands of Mongolian Tugriks	**Over-collateralised Assets**		**Under-collateralised Assets**	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate	867,736,519	2,221,344,416	95,851,867	64,848,680
Consumer	44,440,561	101,457,909	128,377,354	553,408
SME	574,492,670	1,464,256,109	60,099,396	48,002,361
Mortgage	482,706,436	937,674,844	3,078,110	2,553,526
Total	**1,969,376,186**	**4,724,733,278**	**287,406,727**	**115,957,651**

The collateral value presented in the tables above is the assessed fair value of collateral at the reporting date, and is based on the conservative estimates of the Bank's internal valuation specialists.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Refer to Note 19 for the details on repossessed collateral, which was recognised by the Group as foreclosed properties. Refer to Note 37 for the estimated fair value of each class of loans and advances to customers. Information on related party balances is disclosed in Note 39. Currency, interest rate and maturity analysis of loans and advances to customers are disclosed in Note 33.

12 Investment Securities Available for Sale

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Unquoted equities, at fair value	60,598,447	2,398,095
Quoted equity securities, at fair value	422,284	796,643
Total	**61,020,731**	**3,194,738**

12 Investment Securities Available for Sale (continued)

Below is the information on changes in the portfolio of investment securities available for sale during the years ended 31 December 2014 and 2013:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Carrying amount at 1 January	3,194,738	1,778,566
Fair value gains less losses	(813,651)	(1,041,675)
Purchases – unquoted	58,000,000	1,755,174
Disposals of investment securities available for sale - quoted	(12,336)	(2)
Exchange differences	651,980	702,675
Carrying amount at 31 December	**61,020,731**	**3,194,738**

In 2013, the Government of Mongolia passed the law for investment funds to be formed. The first investment fund was subsequently established. The Fund is managed by managing company domiciled in Mongolia, which is not related to the Bank's owners or management, and its main activity is making invests with funds of its customers. At 31 December 2014, the Bank has purchased 10% of investment units of the Fund, which invested its funds in real estate properties in early 2015. . The total investment amounts to MNT 58 billion and management believes that it is fully recoverable, given the assessment of the value of purchased properties done by the Bank's internal valuation specialists.

Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements (Note 3). As the investment was made during December 2014, management believes that carrying value of the investment approximates its fair value and is not aware of any impairment indicators.

13 Investment Securities Held to Maturity

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Treasury bills of the Bank of Mongolia (a)	209,591,218	549,098,116	209,591,218	549,098,116
Government bonds (b)	66,121,588	154,939,387	65,968,346	154,939,387
MIK bond (c)	14,784,500	26,976,882	14,784,500	26,976,882
Total investment securities held to maturity	**290,497,306**	**731,014,385**	**290,344,064**	**731,014,385**

For measurement of investment securities held to maturity refer to Note 38,

(a) Treasury bills of the Bank of Mongolia ("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 the treasury bills of BOM during the years ended 31 December 2014 and 2013:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Carrying value as at 1 January	**549,098,116**	**247,402,728**
Acquisitions	15,041,993,102	15,004,341,388
Maturities	(15,381,500,000)	(14,702,646,000)
Carrying value as at 31 December	**209,591,218**	**549,098,116**

(b) Government bonds, including Government treasury bills

Government bonds are issued by the Ministry of Finance with maturities of less than 7 years, and issued at a discount. Government bonds include Government treasury bills which have original maturity up to 3 months and thus represent cash and cash equivalents. Below is the information on changes in Government bonds during the years ended 31 December 2014 and 2013:

	Group		Bank	
In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Carrying value as at 1 January	**154,939,387**	**72,554,598**	**154,939,387**	**72,554,598**
Acquisitions	143,173,300	487,814,150	143,018,000	487,814,150
Maturity	(235,333,037)	(405,134,976)	(235,333,037)	(405,134,976)
Unamortized discounted premium	2,407,365	(1,386,272)	2,412,811	(1,386,272)
Accrued interest income	934,573	1,091,887	931,184	1,091,887
Fair value as at 31 December	**66,121,588**	**154,939,387**	**65,968,346**	**154,939,387**

c) MIK bond

The MIK bonds represent the bonds secured by the mortgage loans provided by the Bank to the customers. The bond represents a Junior residential mortgage-backed securities (RMBS) obtained from a Mongolian Mortgage Corporation LLC (MIK-SPC) securitisation transaction as disclosed in Note 4.

During the fourth quarter of 2013, the Bank participated in the first MIK securitisation transaction. The bank sold MNT 26,943,028 thousand of the 8% Mortgage loans, described in Note 4, to MIK SPC, for which it received residential mortgage-backed securities (RMBS) amounting to MNT 24,248,725 thousand Senior RMBS notes bearing interest at 4.5% and MNT 2,694,303 thousand Junior RMBS notes bearing interest at 10.5%.

During the third and fourth quarter of 2014, the Bank participated in the second and third MIK securitization transaction. The Bank sold MNT 42,443,192 thousand and 76,126,435 thousand respectively, of the 8% Mortgage loans, described in Note 4, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 38,198,873 thousand and MNT 68,513,792 thousand

Senior RMBS notes bearing interest at 4.5% each and MNT 4,244,319 thousand and MNT 7,612,644 thousand Junior RMBS notes bearing interest at 10.5%.

Senior RMBS notes were recognized as Investment securities available for sale, while Junior RMBS notes were recognized as Investment securities held to maturity, in accordance with the management's intentions. During 2014, the Bank repaid 4% mortgage funding due to the Bank of Mongolia by selling the Senior Tranche RMBS notes to the Bank of Mongolia, in accordance with program.

As described in Note 4 the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. Any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Treasury bills of the Bank of Mongolia**	**Government bonds**	**MIK bond**	**Total**
Neither past due nor impaired				
- B	209,591,218	65,968,346	-	275,559,564
- Unrated	-	-	14,784,500	14,784,500
Total neither past due nor impaired	**209,591,218**	**65,968,346**	**14,784,500**	**290,344,064**

13 Investment Securities Held to Maturity (continued)

(c) MIK bond (contunued)

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	Treasury bills of the Bank of Mongolia	Government bonds	MIK bond	Total
Neither past due nor impaired				
- B+	549,098,116	154,939,387	-	704,037,503
- Unrated	-	-	26,976,882	26,976,882
Total neither past due nor impaired	549,098,116	154,939,387	26,976,882	731,014,385

14 Investment Properties

The investment properties which are accounted for under fair value model represents the carrying value of a complex of summer camp buildings not used for the principal activity of the Group. The fair value of these investment properties is approximately MNT 1,209,050 thousand as of 31 December 2014 (2013: MNT 1,209,050 thousand).

15 Investment in Subsidiary

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Unquoted share, at cost	200,000	200,000

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

16 Other Assets

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Other financial assets:				
Receivables on cash and settlements services	1,366,894	1,427,003	1,351,020	1,426,774
Receivable from individuals	596,627	17,073	596,627	17,073
Receivable from companies	2,080,992	174,803	2,069,862	164,653
Other financial assets	3,395,378	1,613,504	3,395,378	1,613,504
Less: provision for impairment	(1,876,088)	(883,898)	(1,876,088)	(883,898)
Total financial assets	**5,563,803**	**2,348,485**	**5,536,799**	**2,338,106**
Other non- financial assets:				
Prepayments for employees benefits	5,343,386	-	5,343,386	-
Office materials and supplies	606,845	639,787	606,845	639,787
Prepayment for maintenance of buildings	162,080	243,840	162,080	243,840
Prepayments for rent	723,418	7,550,873	722,768	7,550,667
Prepayments for employees	2,886	704	2,886	704
Other prepayments	1,358,387	1,426,368	1,358,387	1,426,368
Other non-financial assets	456,197	452,227	456,197	452,227
Total non-financial assets	**8,653,199**	**10,313,799**	**8,652,549**	**10,313,593**
Total other assets	**14,217,002**	**12,662,284**	**14,189,348**	**12,651,699**

Total prepayments for employee benefits of MNT 5,343,386 thousands include prepayments related to loans to employees at preferential rates of MNT 4,843,448 thousand. In accordance with IFRS, fair value adjustments at initial recognition of loans to employees issued at preferential rates represents salary prepayment and is recognised within other non-financial assets. Though such loans were also issued in previous reporting periods, management's view was that effect of recognition of such loans at fair value as of 31 December 2014 and at the end of previous periods does not have material impact in the financial statements and therefore recognition of amounts of fair value adjustment within other non-financial assets was not necessary.

Analysis by credit quality of other financial assets outstanding at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Receivables on cash and settlements services**	**Receivable from individuals**	**Receivable from companies**	**Other financial assets**	**Total**
Neither past due nor impaired					
- Excellent	748,644	596,627	2,069,862	1,777,808	5,192,941
Total neither past due nor impaired	**748,644**	**596,627**	**2,069,862**	**1,777,808**	**5,192,941**
Impaired					
- less than 30 days overdue	527,148	-	-	286,747	**813,895**
- 30 to 90 days overdue	-	-	-	-	**–**
- 91 to 180 days overdue	-	-	-	-	**–**
- 181 to 360 days overdue	-	-	-	-	**–**
- over 360 days overdue	75,228	-	-	1,330,823	**1,406,051**
Total impaired	**602,376**	**–**	**–**	**1,617,570**	**2,219,946**
Less impairment provisions	**(341,677)**	**–**	**–**	**(1,534,411)**	**(1,876,088)**
Total other financial assets	**1,009,343**	**596,627**	**2,069,862**	**1,860,967**	**5,536,799**

Analysis by credit quality of other financial assets outstanding at 31 December 2013 is as follows

In thousands of Mongolian Tugriks	**Receivables on cash and settlements services**	**Receivable from individuals**	**Receivable from companies**	**Other financial assets**	**Total**
Neither past due nor impaired					
- Excellent	704,218	17,073	164,653	393,760	**1,279,704**
Total neither past due nor impaired	**704,218**	**17,073**	**164,653**	**393,760**	**1,279,704**
Impaired					
- less than 30 days overdue	681,565	-	-	1,219,744	**1,901,308**
- 30 to 90 days overdue	40,992				**40,992**
- 91 to 180 days overdue	-	-	-	-	**–**
- 181 to 360 days overdue	-	-	-	-	**–**
- over 360 days overdue	-	-	-	-	**–**
Total impaired	**722,557**	**–**	**–**	**1,219,744**	**1,942,300**
Less impairment provisions	**(738,755)**	**–**	**–**	**(145,143)**	**(883,898)**
Total other financial assets	**688,020**	**17,073**	**164,653**	**1,468,361**	**2,338,106**

16 Other Assets (continued)

Movements in the provision for asset impairment during 2014 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2014	**671,393**	**–**	**33,270**	**179,235**	**883,898**
Provision for impairment during the year	291,426	-	33,270	1,356,716	1,681,412
Exchange difference	11,575	-	-	-	11,575
Amounts written off during the year as uncollectible	(642,970)	-	-	(57,827)	(700,797)
Provision for asset impairment at 31 December 2014	**331,424**	**–**	**66,540**	**1,478,124**	**1,876,088**

Movements in the provision for asset impairment during 2013 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2013	**636,444**	**1,160**	**33,270**	**19,468**	**690,342**
Provision for impairment during the year	33,789	-	-	159,767	193,556
Exchange difference	7,186	-	-	-	7,186
Amounts written off during the year as uncollectible	(6,026)	(1,160)	-	-	(7,186)
Provision for asset impairment at 31 December 2013	**671,393**	**–**	**33,270**	**179,235**	**883,898**

17 Intangible Assets

	Group			Bank		
In thousands of Mongolian Tugriks	**Computer software licences**	**Land use right**	**Total**	**Computer software licences**	**Land use right**	**Total**
Cost at 1 January 2013	5,012,824	329	**5,013,153**	5,009,308	329	**5,009,637**
Accumulated amortization	(4,210,312)	-	**(4,210,312)**	(4,208,892)	-	**(4,208,892)**
Carrying amount at 1 January 2013	**802,512**	**329**	**802,841**	**800,416**	**329**	**800,745**
Additions	3,995,214	672,984	**4,668,198**	3,995,215	672,984	**4,668,199**
Charge for the year	(832,688)	-	**(832,688)**	(831,642)	-	**(831,642)**
Carrying amount at 31 December 2013	**3,965,038**	**673,313**	**4,638,351**	**3,963,989**	**673,313**	**4,637,302**
Cost at 1 January 2014	9,008,038	673,313	9,681,351	9,004,523	673,313	9,677,836
Accumulated amortization	(5,043,000)	-	(5,043,000)	(5,040,534)	-	(5,040,534)
Carrying amount at 1 January 2014	**3,965,038**	**673,313**	**4,638,351**	**3,963,989**	**673,313**	**4,637,302**
Additions	11,146,410	-	**11,146,410**	11,146,410	-	**11,146,410**
Charge for the year (Note 29)	(1,975,004)	-	**(1,975,004)**	(1,974,395)	-	**(1,974,395)**
Write-offs at cost	(286,281)	-	**(286,281)**	(286,281)	-	**(286,281)**
Write-offs accumulated amortization	286,281	-	**286,281**	286,281	-	**286,281**
Carrying amount at 31 December 2014	**13,136,444**	**673,313**	**13,809,757**	**13,136,004**	**673,313**	**13,809,317**

18 Premises and equipment

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	PPE reserve	Leasehold improvement	Construction in progress	Total premises and equipment
Cost at 1 January 2013	10,766,863	2,118,539	15,679,118	2,795,296	2,239,762	379,022	13,780,183	**47,758,783**
Accumulated depreciation	(756,335)	(618,720)	(8,742,675)	(1,177,829)	-	(96,975)	-	**(11,392,534)**
Carrying amount at 1 January 2013	**10,010,528**	**1,499,819**	**6,936,443**	**1,617,467**	**2,239,762**	**282,047**	**13,780,183**	**36,366,249**
Additions	1,988,727	403,577	7,225,211	494,981	1,376,715	169,600	3,922,269	**15,581,080**
Reclassification	2,993,699	-	-	(390,786)	-	-	(2,993,699)	**(390,786)**
Disposals cost	-	(215,276)	(1,066,524)	(11,726)	(198,649)	-	-	**(1,492,175)**
Write-offs cost	-	-	(689,258)	(20,681)	-	-	-	**(709,939)**
Revaluation – at cost	6,408,197	-	-	-	-	-	-	**6,408,197**
Charge for the year	(245,548)	(306,831)	(4,358,489)	(932,939)	-	(168,325)	-	**(6,012,132)**
Reclassification	-	-	-	153,518	-	-	-	**153,518**
Disposals depreciation	-	28,395	1,013,803	7,512	-	-	-	**1,049,710**
Write-offs depreciation	-	-	681,718	14,713	-	-	-	**696,431**
Revaluation – reversal of accumulated depreciation	1,019,894	-	-	-	-	-	-	**1,019,894**
Carrying amount at 31 December 2013	**22,175,497**	**1,409,684**	**9,742,904**	**932,059**	**3,417,828**	**283,322**	**14,708,753**	**52,670,047**
Cost/valuation at 1 January 2014	22,157,486	2,306,840	21,148,547	2,867,084	3,417,828	548,622	14,708,753	**67,155,160**
Accumulated depreciation	18,011	(897,156)	(11,405,643)	(1,935,025)	-	(265,300)	-	**(14,485,113)**
Carrying amount at 1 January 2014	**22,175,497**	**1,409,684**	**9,742,904**	**932,059**	**3,417,828**	**283,322**	**14,708,753**	**52,670,047**
Additions	35,726,751	686,900	3,839,426	1,581,387	3,273,873	1,109,521	922,072	**47,139,930**
Reclassification	3,323,032	-	-	-	-	-	(3,323,032)	**–**
Transfers	-	-	1,353,029	-	(1,353,029)	-	-	**–**
Disposals	(619,556)	(340,758)	(158,582)	(2,347)	-	-	-	**(1,121,243)**
Write-offs	-	-	(451,259)	-	-	-	-	**(451,259)**
Charge for the year	(956,818)	(321,827)	(5,489,794)	(299,523)	-	(219,965)	-	**(7,287,927)**
Disposals	280,091	189,090	146,156	1,302	-	-	-	**616,639**
Write-offs	-	-	433,722	-	-	-	-	**433,722**
Carrying amount at 31 December 2014	**59,928,997**	**1,623,089**	**9,415,602**	**2,212,878**	**5,338,672**	**1,172,878**	**12,307,793**	**91,999,909**

The above amounts represent the Group's amounts. The carrying amount of the above includes the cost of premises and equipment of the subsidiary in the amount of MNT 20,545 thousand (2013: MNT 35,580 thousand) less the accumulated depreciation of MNT 8,896 thousand (2013: MNT 15,089 thousand). As the Bank's premises and equipment do not materially differ from the Group's, management believes that additional disclosure is not necessary.

Premises have been revalued at fair value at 30 June 2013. The valuation was carried out by independent appraisers, a consortium of nine companies led by Yudentax TIN audit LLC, Ulaanbaatar, Mongolia. The consortium holds a recognised and relevant professional qualification and has recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value for premises located in the capital Ulaanbaatar and other urban areas and replacement cost for premises located in rural areas. Using market value of similar assets was considered appropriate for these properties due to lack of reliable input data for discounted cash flow approach.

Net increase in revaluation as of 31 December is recognized through increase in revaluation surplus. At 31 December 2014 the carrying amount of premises would have been MNT 51,716,819 thousand (2013: MNT 13,963,319 thousand) had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises as follows:

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Premises at revalued amount in the statement of financial position	59,928,997	22,175,497
Revaluation reserve presented in equity	(7,844,139)	(8,212,178)
Revaluation reserve - transfer to retained earnings	(368,039)	-
Premises at cost less accumulated depreciation	**51,716,819**	**13,963,319**

19 Repossessed collaterals

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Financial asset at fair value	-	9,512,024
Non-financial assets at cost	9,196,483	2,899,092
Less: Impairment provision	(880,992)	(523,310)
Total repossessed collaterals	**8,315,491**	**11,887,806**

Non-financial assets at cost represent premises which the Bank has acquired in the process of settlement of overdue loans, which value is intended to be recovered through their sale. The impairment provision disclosed above fully relates to non-financial assets. For the accounting policy applied refer to Note 4.31.

Similarly, financial assets at fair value represent securities acquired in the process of settlement of overdue loans, which value is intended to be recovered through their sale. Therefore, these securities are classified as financial assets available for sale. The amount as of 31 December 2013 fully relates to quoted shares of a Mongolian company quoted on Hong Kong stock exchange. The increase in fair value of these shares during 2013 was recognized Revaluation reserve for AFS securities within equity in the amount of MNT 3,257,517 thousand. Related shares were sold in 2014, which led to decrease in Financial foreclosed asset reserve by MNT 3,116,008 and realized gain on sale is recognized in profit or loss within line 'Gains less losses from financial assets available for sale'. As the above balances equate the Bank's and the Group additional disclosure is not required.

Movements in the provision for repossessed non-financial collaterals during 2014 are as follows:

In thousands of Mongolian Tugriks	**Financial asset at fair value**	**Total**
Provision for repossessed collaterals at 1 January 2014	**523,310**	**523,310**
Provision for impairment during the year	440,287	440,287
Amounts written off during the year as uncollectible	(82,605)	(82,605)
Provision for repossessed collaterals at 31 December 2014	**880,992**	**880,992**

19 Repossessed collaterals (continued)

Movements in the provision for repossessed collaterals during 2013 are as follows:

In thousands of Mongolian Tugriks	Financial asset at fair value	Total
Provision for repossessed collaterals at 1 January 2013	**523,310**	**523,310**
Provision for impairment during the year	404,011	404,011
Amounts written off during the year as uncollectible	(404,011)	(404,011)
Provision for repossessed collaterals at 31 December 2013	**523,310**	**523,310**

Financial assets at fair value represent quoted equity in Mongolian Investment Group/Peace Map Holding, listed on Hong Kong Stock Exchange used as collaterals repossessed in 2012. The asset met the classification of financial assets available for sale in accordance with IAS 39."Financial Instrument, Recognition and Measurement".

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

20 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Short-term placements of other banks	27,038,904	2,763,898
Long-term placement of other banks	106,307,760	23,699,042
Total due to other banks	**133,346,664**	**26,462,940**

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

At 31 December 2014 short term placement relates to deposits from local banks and foreign banks with interest rates between 2%-5.8% p.a. (2013:4.8%) and original maturity from 6 to 77. The short-term placement for 2013 was on demand.

At 31 December 2014 long-term placement relates to deposits from local banks and foreign banks in with interest rate of 6.5% - 8.0% p.a. (2013: 7% - 8%), and original maturity 182 - 364 days(2013:334 – 336 days).

Refer to Note 37 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 33. As the above balances equate the Bank's and the Group additional disclosure is not required.

21 Customer Accounts

In thousands of Mongolian Tugriks	Group 31 December 2014	Group 31 December 2013	Bank 31 December 2014	Bank 31 December 2013
State and public organizations	**109,226,946**	**86,784,485**	**109,226,946**	**86,784,485**
- Current/settlement accounts	76,135,907	55,277,138	76,135,907	55,277,138
- Demand deposits	22,293,241	470,603	22,293,241	470,603
- Term deposits	10,797,798	31,036,744	10,797,798	31,036,744
Legal entities	**847,847,785**	**610,067,354**	**848,034,086**	**610,411,689**
- Current/settlement accounts	529,804,588	398,905,639	529,980,889	399,239,974
- Demand deposits	28,329,097	18,020,627	28,339,097	18,030,627
- Term deposits	289,714,100	193,141,088	289,714,100	193,141,088
Individuals	**1,251,639,366**	**1,219,337,690**	**1,251,639,366**	**1,219,337,690**
- Current/demand accounts	93,938,972	97,763,418	93,938,972	97,763,418
- Demand deposits	352,483,744	358,282,276	352,483,744	358,282,276
- Term deposits	805,216,650	763,291,996	805,216,650	763,291,996
Other	**23,369,188**	**245,244,964**	**23,369,188**	**245,244,964**
- Current/demand accounts	14,317,714	11,401,532	14,317,714	11,401,532
- Demand deposits	2,994,696	1,351,306	2,994,696	1,351,306
- Term deposits	6,056,779	232,492,126	6,056,779	232,492,126
Total customer accounts	**2,232,083,285**	**2,161,434,493**	**2,232,269,586**	**2,161,778,828**

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.

The management currently does not monitor concentration of customer accounts per economic sectors. Therefore, related information is not disclosed in these financial statements. At 31 December 2014 the aggregate amount of the top 30 biggest customers is MNT 635,381,863 thousand (31 December 2013: MNT 601,017,337 thousand) or 29% of total customer accounts (31 December 2013: 28%).

The amount due to a subsidiary amounting to MNT 186,299 thousand (2013: MNT 344,335 thousand) was eliminated in the Group's financial statements.

At 31 December 2014, included in customer accounts are deposits of MNT 14,112,014 thousand (2013: MNT 18,605,313 thousand) held as collateral for irrevocable commitments under bank guarantee. Refer Note 35.

22 Other Borrowed Funds

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
(a)		
Borrowed funds under Projects/MNT/	959,036,160	982,982,824
Borrowed funds under Projects/USD/	6,070,000	7,245,340
Borrowed funds under Projects/EUR/	857,925	942,340
Total borrowed funds under projects	**965,964,085**	**991,170,504**
(b)		
Borrowings from foreign banks and financial institutions/USD/	42,317,394	28,572,624
Borrowings from foreign banks and financial institutions/EUR/	944,875	12,464,871
Borrowings from foreign banks and financial institutions/CNY/	2,272,674	111,222
Total borrowings from foreign banks and financial institutions	**45,534,943**	**41,148,717**
TOTAL (a+b)	**1,011,499,028**	**1,032,319,221**

22 Other Borrowed Funds (continued)

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
(a) Borrowed funds under project	**959,036,160**	**982,982,824**
Projects		
Borrowings under Housing finance Project	1,152,887	1,765,186
Borrowings under SME development and natural environment protection	23,323,236	23,287,726
Borrowings under SME industry support fund	32,812,235	34,749,707
Borrowings under project for support to finished wool and cashmere producers	7,408,683	11,286,631
Borrowings under 40000 Housing Unit Development program	76,934	626,935
Borrowings under Fuel price Stabilization Sub-Program	26,686,936	25,803,963
Borrowings under Agriculture and Rural Development Project	4,239,088	3,914,988
Private sector development project loan 2, MNT	1,073,412	1,456,186
Project on supporting milk and dairy products manufacturing	39,011,738	44,101,419
Project on constructing greenhouse farm	27,688,111	27,699,227
Project on producing woolen goods	54,434,877	71,638,904
Project on supporting the sewing industry	11,355,830	21,493,794
Project on renewing the cashmere technology	109,760,864	107,813,128
Project loan of KFB bank -983	4,830,150	5,124,633
Stabilizing prices of key commodities and products	46,038	1,734,230
Project on meat reserve	14,043,484	26,406,028
Project to increase number of warehouses and to support development of intensive livestock	28,528,826	14,519,489
Project on housing prices stabilization	11,086,604	15,608,641
Project on promoting the construction sector	30,000,000	110,005,753
The Program on reserve cement and armature	535	9,099,837
Housing mortgage program	469,024,994	408,000,000
Project on coal reserve	12,770,356	24,061,726
Program to support construction industry	2,004,658	-
Project 888 to support export and substitute import	27,376,936	-
MNCCI leather processing project	17,257,211	-
Price stabilization program to reduce the cost of imported goods	9,238,987	-
Other borrowing under project	730,475	972,373
TOTAL	**965,964,085**	**991,170,504**

As the above balances equate the Bank's and the Group additional disclosure is not required.

(a) Borrowed funds under projects

The terms of the borrowing agreements government organizations, central bank, and international financial institutions are provided in below table.

As disclosed in Note 3, most of these funds are obtained for specific purposes (issuing loans at advantageous rates to target customers), defined by the lenders or the Government of Mongolia, and therefore they are obtained at interest rates which may be lower than rates at which the Bank could source the funds from other lenders. Interest rate on most of these borrowed funds ranges between 0.9% to 5.1% p.a., while interest rate on most of the loans issued from these sources range between 3.8% and 9% p.a. The management considered whether initial gain on recognition of these borrowings should be recognised and concluded that they meet definition of principal market and that no gains or losses should arise on initial recognition of related borrowings and loans to customers. For management's judgments refer to Note 3. The major programs include funding from the Bank of Mongolia under Strategic Import Financing Scheme (SIFS), Price Stabilization Programs, and Housing Mortgage Program, as well as funding from the Development Bank of Mongolia on funding specific sectors or types of projects that are related to key priorities for development of Mongolia economy (e.g. achieving diversification of economy) by the Government of Mongolia. These programs are briefly outlined below.

The Government of Mongolia and the Bank of Mongolia entered into a memorandum of understanding on joint implementation of a mid-term program for stabilizing the price of main goods on 22 October 2012 (SIFS). Within the framework of this program, the Bank entered into agreements for Fuel Pricing Stabilization (SIFS) on 10 December 2012, Food Price Stabilization on 24 December 2012, and Construction sector support and apartment price stabilization on 7 May 2013 with the Bank of Mongolia. For SIFS and FPS the loan bears 0.89% interest rate per annum. The Bank then lends the funds to approved participants in the programs at the interest rate of 3.8% p.a. For Construction sector support and apartment price stabilization program the loan bear 2.5%-4% interest rate per annum. And the Bank then lends the funds to approved participants in the program at the interest rate of 5.5%-7% p.a. Under the agreements with the Bank of Mongolia, in the event the Bank does not repay the Bank of Mongolia in accordance with terms, the Bank of Mongolia has the right to debit the Bank's account at the Bank of Mongolia. The Bank approves all loans disbursement and bears the credit risk.

Under Housing Mortgage Program, the Bank received funds during 2013 and 2014 from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 4% p.a. Newly issued loans or refinanced loans need to meet specific requirements (apartments with maximum area of 80 square meters, downpayment of at least 30% apartment purchase price, good customer's credit history with respective bank and other Mongolian banks etc.) in order to qualify for this program. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates of 8% p.a. defined by the Bank of Mongolia i.e. the Bank has no discretionary rights in determining interest rates on issued loans. The Bank approves all loans disbursement or refinancing under 8% interest rate and bears the credit risk.

Apart from the above programs, during 2013 the Bank obtained financing from the Bank of Mongolia under the Government programs for financing the construction sector. These funds are denominated in MNT and obtained at interest rates of 7% p.a., which are lower than rates at which the Bank could source the funds from other lenders at Mongolian market. Though these funds need to be used for issuance of loans that meet specific criteria (companies engaged in construction of apartment buildings, specific ratio criteria set by the Bank of Mongolia), the Bank has discretionary rights to determine interest rates on loans issued to customers under this program. Consequently, interest rates on related loans to customers are not significantly different from market interest rates, i.e. from interest rates on loans issued from other Bank's funding. The Bank has discretionary rights to determine interest rates on loans issued to customers under this program, and interest rates on related loans to customers are not significantly different from market interest rates for construction loans, i.e. from interest rates on loans issued from the Bank's other lending sources. As a result, the above funding meets the condition of government grant in accordance with IAS 20. For the accounting policies related to government grants, refer to Note 4. Remaining balances of government grant as of 31 December 2014 amount to MNT 943,253 thousand (31 December 2013: MNT 10,672,232 thousand). Management believes that presentation of related amounts as a separate line in the Consolidated Statement of Financial Position is not necessary, as related amounts are not significant from the perspective of users of financial information.

The Bank participates in the Government financed program for improving agricultural industry, which is run by Development Bank of Mongolia (DBM). On 15 August 2013, the Bank entered into the agreement with the DBM under this program for financing small and medium sized enterprises which operate in specified industries including constructing greenhouse farm, milk and dairy products manufacturing, sewing, renewing cashmere technology and production of woollen goods. Under this arrangement the Bank obtained funding at interest rates ranging from 5.13% to 5.7 % p.a, and issued loans to customers at advantageous interest rate of 8% p.a. which is defined in the contract with the DBM. The Bank bears the credit risk in this arrangement.

Since July 2014, the Bank participates in another Government project targeting specific industry, "Manufacturing and Processing of Leather Products (MNCCI)" with Development Bank of Mongolia. Related funding from the DBM is obtained at interest rate of 5% p.a and related loans are issued to customers at advantageous interest rates of 7% p.a., as per terms of the arrangement. All customers must be approved by Ministry of Food and Agriculture. The Bank bears the credit risk in this arrangement.

Further, the Bank participates in the Government program of financing 888 projects to support export and substitute import products in Mongolia through Development Bank of Mongolia and commercial banks. As a part of this arrangement the Bank received funding at interest rates ranging from 3% to 5 % p.a with maturity of 5 years and maximum interest rate on issued loans ranging from 7% to 9% p.a., which represent advantageous interest rates. The Bank has discretionary rights to determine interest rates within the defined threshold and bears credit risk in this arrangement.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2014 in original currency	Principle balance as of 31 December 2014 in MNT
Government price stabilization program	Bank of Mongolia	Price stabilizing of key commodities and products	MNT	8/8/2014	8/8/2015	46,000	46,000
	Bank of Mongolia	Project to support development of intensive livestock	MNT	12/19/2013	12/19/2016	10,649,000	10,649,000
	Bank of Mongolia	Program to support construction industry	MNT	11/1/2014	11/1/2016	2,000,000	2,000,000
	Bank of Mongolia	Project on housing prices stabilization	MNT	5/3/2013	7/30/2016	11,061,389	11,061,389
	Bank of Mongolia	Project on coal reserve	MNT	9/5/2013	12/30/2016	12,763,957	12,763,957
	Bank of Mongolia	Project to increase number of warehouses	MNT	12/19/2013	12/19/2016	17,856,004	17,856,004
	Bank of Mongolia	Price stabilization program to reduce the cost of imported goods	MNT	8/31/2014	8/31/2016	9,230,772	9,230,772
	Bank of Mongolia	Project on meat reserve	MNT			14,041,000	14,041,000
	Bank of Mongolia	Borrowings under Fuel price Stabilization Sub-Program	MNT	12/4/2012	12/4/2015	26,668,364	26,668,364
	Bank of Mongolia	Project on promoting the construction sector	MNT	12/27/2013	6/27/2015	30,000,000	30,000,000
	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	2/14/2015	468,973,600	468,973,600
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Project 888 to support export and substitute import (less than 2 bln)	MNT	8/28/2014	8/28/2019	8,479,820	8,479,820
	Development Bank of Mongolia	Project 888 to support export and substitute import (more than 2 bln)	MNT	9/1/2014	8/28/2019	18,887,833	18,887,833
	Development Bank of Mongolia	Project on supporting the sewing industry	MNT	8/12/2013	12/1/2017	11,199,320	11,199,320
	Development Bank of Mongolia	Project on constructing greenhouse farm	MNT	8/12/2013	12/1/2017	27,323,568	27,323,568
	Development Bank of Mongolia	Project on supporting milk and dairy products manufacturing /DBM/	MNT	8/12/2013	12/1/2017	38,497,864	38,497,864
	Development Bank of Mongolia	Project on producing woolen goods	MNT	8/12/2013	12/1/2017	53,707,780	53,707,780
	Development Bank of Mongolia	Project on renewing the cashmere technology	MNT	8/12/2013	12/1/2017	108,301,786	108,301,786
	Development Bank of Mongolia	MNCCI leather processing project	MNT	8/22/2014	8/22/2019	17,242,933	17,242,933

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2014 in original currency	Principle balance as of 31 December 2014 in MNT
Joint projects of Mongolian government and JICA	JICA	Borrowings under SME industry support fund	USD	9/29/2006	12/31/2019	1,224	2,308,602
	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	12/31/2017	17,352,568	17,352,568
	World Bank	Private sector development project loan-2, MNT	MNT	10/18/2007	5/1/2027	448,000	448,000
	World Bank	Private sector development project loan-2, USD	USD	12/20/2012	12/20/2016	322	607,163
Other government projects	Government	Borrowings under SME industry support fund	MNT	9/29/2006	12/31/2019	20,952,236	20,952,236
	Government	Borrowings under SME industry support fund	MNT	7/10/2012	12/31/2017	15,348,640	15,348,640
	Government	Borrowings under project for support to finished wool and cashmere producers	MNT	1/4/2012	1/4/2017	7,396,809	7,396,809
	Government	Borrowings under 40000 Housing Unit Development program	MNT	2/27/2008	3/15/2019	71,711	71,711
	Government	ADB Mortgage loan fund	MNT			1,099,305	1,099,305
	Government	Borrowings under Agriculture and Rural Development Project	MNT	6/13/2011	2/10/2018	1,599,248	1,599,248
	Government	Borrowings under Agriculture and Rural Development Project	USD	5/2/2012	2/10/2018	1,400,000	2,639,840
	Government	Other borrowing under project (Training Loan from Foreign bank)	USD	11/12/2009	5/1/2027	268	505,113
	Bank of Mongolia	ADB Employment Generation Loan	MNT	5/7/2001	5/7/2016	224,000	224,000
	Bank of Mongolia	Project loan of KFB bank	EUR	12/11/2012	up to 5 years	374	857,717
	Bank of Mongolia	Project loan of KFB bank	MNT	5/16/2013	up to 5 years	3,964,500	3,964,500

(b) Borrowings from foreign banks and financial institutions

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2014 the Bank utilised MNT 45,534,943 thousand (31 December 2013: MNT 41,148,717 thousand) of related credit lines and issued loans for the same amount. Funding is provided by international banks and financial institutions for the purpose of import financing of transactions of customers. The term of such funding is up to 3 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer.

Refer to Note 37 for the disclosure of fair value of other borrowed funds. Information on related party balances is disclosed in Note 39. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 33.

None of the borrowing agreements have financial or other covenants.

23 REPO Arrangements

As of 31 December 2014, sale and repurchase agreements relates to placements from local banks, bearing interest rate 12% – 14%% p.a. (2013:12.5%) respectively, with original maturity 5 - 28 days (2013: 2 days). These placements are fully collateralized by the Bank of Mongolia treasury bills and Government bonds, disclosed in Note 13 and Note 35.

24 Other Liabilities

Other liabilities comprise the following:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Other financial liabilities	**23,439,867**	**15,374,011**	**23,356,806**	**15,316,744**
Account payable	818,966	585,156	818,966	585,156
Liabilities for settlements of transactions	18,904,073	11,259,549	18,904,073	11,259,549
Other	3,716,828	3,529,306	3,633,767	3,472,039
Other non-financial liabilities	**3,956,514**	**4,304,723**	**3,953,584**	**4,304,723**
Payables to employees	3,364,430	3,738,786	3,364,430	3,738,786
Tax payable other than on income	592,084	565,937	589,154	565,937
Total other liabilities	**27,396,381**	**19,678,734**	**27,310,390**	**19,621,467**

Liabilities for settlement of transactions relate to amounts transferred to other banks in early January 2015, at customers' requests made in late December 2014. As a result, related amounts were transferred from customers' accounts to the accounts used for settlement of transactions within 'Other financial liabilities' as of 31 December 2014 and further cleared through inter-banking settlement in early January 2015.

Most of the other financial liabilities are expected to be settled within twelve months after the year-end. All non-financial liabilities are of a short-term nature.

25 Subordinated Debt

In thousands of Mongolian Tugriks	2014	2013
Subordinated loans from Golomt Financial Group	66,248,404	-
Subordinated loan from Bodi international	-	16,901,223
Subordinated convertible loan from Stanhope Investments	-	41,359,950
TOTAL	**66,248,404**	**58,261,173**

As the above balances equate the Bank's and the Group additional disclosure is not required.

Subordinated loans as of the year ended 31 December 2014:

	Maturity date	Currency	Interest rate p.a.	Accrued interest USD	Outstanding principal amount in USD
Golomt Financial Group (2013: Bodi International LLC)	2018.12.31	USD	6.0%	153,333	10,000,000
Golomt Financial Group (2013: Stanhope Investments)	2015.06.10	USD	4.7%	302,520	25,000,000
TOTAL				**455,853**	**35,000,000**

Subordinated loan from Golomt Financial Group (2013: Credit Suisse)

The Bank received a USD10 million 5-year subordinated loan from Credit Suisse AG, Singapore Branch in 2007.

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 between Golomt Bank and Bodi International LLC, the main shareholder of the Bank at that time, on transfer of Credit Suisse loan to Bodi International LLC. Accordingly, the transfer certificate was signed by Credit Suisse AG, Singapore Branch, Bodi International LLC and Golomt Bank on 8 January 2014. Bodi International LLC, the main shareholder of the Bank purchased the loan from Credit Suisse on 27 December 2013.

While the agreement with Credit Suisse contained conversion option, which gave Credit Suisse the right at any time during the loan life to convert the loan into new ordinary shares at pre-determined strike (exercise price) and certain debt covenants, the agreement with Bodi International LLC does not give creditor such rights i.e. both debt covenants and conversion option are waived through the Amendment Agreement.

The principal terms are given below:
(a) The loan bears interest at 6% per annum.
(b) The loan shall be repaid in full with the accrued interest on 31 December 2018.

Following the transfer of the Bank's ownership to Golomt Financial Group, on 7 July 2014, the subordinated loan was transferred to Golomt Financial Group, the new main shareholder of the Bank.

Subordinated loan from Golomt Financial Group (2013: Stanhope Investments)

On 8 June 2010, the Bank received a USD 25 million 5-year subordinated loan from Stanhope Investments, a wholly owned subsidiary of Abu Dhabi Investment Council, with the following principal term:
- The loan bears interest at 4.5% above LIBOR, payable quarterly;
- Stanhope Investments has the option at any time during the loan life to convert the loan into new ordinary shares at a predefined strike (exercise) price.
- Stanhope Investments has right to request immediate repayment of the full amount of the debt, if certain financial and non-financial covenants were breached.

As a result, the Bank has recognised fair value of embedded derivative in the amount of MNT 962,305 thousand in the Statement of financial position as of 31 December 2013.

Stanhope Investments has raised the claim against Golomt Bank on 10 December 2013, on the basis that certain covenants were breached, and requested immediate repayment of the loan principal, interest accrued, default interest and No IPO Premium (refer to Note 35).

On 30 April 2014, a transfer certificate was signed by Stanhope Investments, Golomt Bank and Bodi International LLC. Bodi International LLC, the main shareholder of the Bank, purchased the loan from Stanhope Investments. Both debt covenants and conversion option are waived through the agreement signed by Golomt Bank and Bodi International LLC. As a result, gain from embedded derivative is recognized through profit or loss account in these financial statements in the amount of MNT 962,305 thousand.

Following the transfer of the Bank's ownership to Golomt Financial Group, on 7 July 2014, the subordinated loan was transferred to Golomt Financial Group, a new main shareholder of the Bank.

The loan will mature on 8 June 2015 and with the intention to extend the subordinated loan further, signing of new contract with Golomt Financial Group is in progress.

As mentioned above, none of the agreements effective as of 31 December 2014 contains financial or non-financial covenants, which breach could result in request for immediate repayment of the subordinated debts.

26 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
At 1 January 2013	25,907,593	25,907,593	42,322,298	-	68,229,891
Issued during the year	-	-	-	16,388,100	16,388,100
At 31 December 2013	25,907,593	25,907,593	42,322,298	16,388,100	84,617,991
Issued during the year	309,500	309,500	2,377,123	9,390,800	12,077,423
At 31 December 2014	26,217,093	26,217,093	44,699,421	25,778,900	96,695,414

The nominal registered amount of the Bank's issued share capital is MNT 26,217,093 thousand (2013: MNT 25,907,593 thousand).

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

Ordinary shares

The total authorised number of ordinary shares is 26,217,093 shares (2013: 25,907,593 shares), with a par value of MNT 1,000 per share (2013: MNT 1,000 per share). All issued ordinary shares are fully paid.

In 2014, 309,500 fully paid shares of the Bank of MNT 1,000 each were issued through exercise of employee share options at the exercise price of MNT 3,834 per share. The share premium of MNT 2,377,123 thousand arising from the issuance of these ordinary shares has been included in the share premium account

The shareholders of the bank as of 31 December 2014 and 31 December 2013 and the percentages of ownership are as follows:

Shareholder	**2014**	**2013**
	Ownership (%)	**Ownership (%)**
Golomt Financial Group Co.,Ltd (2013: Bodi International Co.,Ltd)	83.66%	84.66%
Swiss-Mo Investment A.G	10.04%	10.16%
Trafigura Beheer B.V	4.96%	5.02%
ESOP	1.34%	0.16%
Total	**100%**	**100%**

Preferred shares

Mr Zorigt agreed to purchase the preferred shares of 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 USD 15 million which should be made in two instalments (USD 10 million due by 25 December 2013 and USD 5 million due by 25 December 2014). As of 31 December 2014, total preferred shares amount to USD 15,000,000, which is equivalent to MNT 25,778,900 thousand divided into 25,778,900 preferred shares.

27 Interest Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Interest income				
Cash and balances with central bank	232,486	1,156,076	232,486	1,156,076
Loans and advances to customers	288,544,459	233,978,358	288,544,459	233,978,358
Reverse repurchase agreements	3,144,945	728,508	3,144,945	728,508
Due from other banks	966,312	340,560	966,312	340,560
Investments held to maturity	45,485,178	54,742,667	45,477,723	54,741,817
Total interest income	**338,373,380**	**290,946,169**	**338,365,925**	**290,945,319**
Interest expense				
Customer accounts	(140,059,523)	(157,983,197)	(140,059,523)	(157,988,658)
Other borrowed funds	(58,760,818)	(21,902,985)	(58,760,818)	(21,902,985)
Due to other banks	(3,734,156)	(2,439,625)	(3,734,156)	(2,439,625)
Repurchase agreements	(3,459,665)	(91,643)	(3,459,665)	(91,643)
Subordinated loans	(3,282,852)	(2,277,820)	(3,282,852)	(2,277,820)
Other	(14,848)	-	(14,848)	-
Total interest expense	**(209,311,862)**	**(184,795,270)**	**(209,311,862)**	**(184,700,730)**
Net interest income	**129,061,518**	**106,250,899**	**129,054,063**	**106,244,589**

Interest income includes approximately MNT 10.5 billion of interest income, recognised on impaired loans to customers. Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2014 in accordance with IFRS requirements.

28 Fee and Commission Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Fee and commission income				
Account service fee and commissions	3,555,574	4,071,176	3,550,138	3,768,845
Commissions on operations with plastic cards	8,946,875	7,604,382	8,946,875	7,604,382
Commissions on documentary business and guarantees	918,285	5,974,686	918,285	5,974,686
Remittance and other service fees	5,958,559	8,070,252	5,916,612	8,010,252
Brokerage and other service fee	1,097,147	17,321	909,265	-
Total fee and commission income	**20,476,440**	**25,737,817**	**20,241,175**	**25,358,165**
Fee and commission expense				
Bank service expense	(2,521,124)	(1,895,602)	(2,454,066)	(1,803,086)
Card transaction expense	(4,178,019)	(3,468,767)	(4,178,019)	(3,468,767)
Online transaction expense	(116,420)	(78,200)	(116,420)	(78,200)
Total fee and commission expense	**(6,815,563)**	**(5,442,569)**	**(6,748,505)**	**(5,350,053)**
Net fee and commission income	**13,656,574**	**20,295,248**	**13,492,670**	**20,008,112**

29 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Group 31 December 2014	 31 December 2013	Bank 31 December 2014	 31 December 2013
Staff costs	29,562,755	27,415,872	29,562,755	27,415,872
Rental of premises	8,236,247	7,544,237	8,188,247	7,496,237
Professional fees	7,474,699	9,723,760	7,467,927	9,718,905
Administrative expenses	7,300,215	5,234,347	7,299,715	5,234,347
Depreciation of premises and equipment	7,288,823	6,012,132	7,279,927	6,003,478
Advertising and marketing services	2,576,402	2,474,930	2,572,998	2,474,041
Amortization of software and intangible assets	1,975,004	831,642	1,974,395	831,642
Voluntary and mandatory insurance	1,401,232	1,476,249	1,401,082	1,476,249
Transportation	1,264,421	1,106,094	1,264,421	1,106,094
Loan collection expenses	1,022,524	533,359	1,022,524	533,359
Travelling expenses	778,161	491,929	778,161	491,552
Utilities	469,232	343,214	467,723	341,705
Taxes (other than income tax)	432,808	368,611	432,808	368,611
Entertainment	412,563	905,181	412,563	905,181
Donations	87,503	33,860	87,503	33,860
Property, plant and equipment written-off	18,384	-	18,384	-
Expenses relating to maintenance of premises and equipment	-	13,637	-	13,637
Other	2,848,763	2,674,552	2,837,197	2,671,244
Total administrative and other operating expenses	**73,149,736**	**67,183,606**	**73,068,330**	**67,116,014**
Staff costs consist of:				
Salaries, wages and bonus	25,409,726	23,408,140	25,409,726	23,408,140
Contribution to social and health fund	2,479,142	2,424,275	2,479,142	2,424,275
Pension fund	662,702	577,799	662,702	577,799
Staff training	508,504	399,481	508,504	399,481
Staff benefits	169,332	135,583	169,332	135,583
Share-based payments (Note 40)	333,349	470,594	333,349	470,594
Total staff costs	**29,562,755**	**27,415,872**	**29,562,755**	**27,415,872**

30 Income Taxes

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Mongolian Tugriks	Group 31 December 2014	 31 December 2013	Bank 31 December 2014	 31 December 2013
Current income tax charge	12,870,767	9,330,902	12,861,262	9,308,311
Deferred income tax	1,593,786	4,797,655	1,593,620	4,797,655
Income tax expense for the year	**14,464,553**	**14,128,557**	**14,454,882**	**14,105,966**

The Bank provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 3 billion (2013: MNT 3 billion) of taxable income, and 25% (2013: 25%) on the excess of taxable income over MNT 3 billion (2012: MNT 3 billion) in accordance with Mongolian tax legislation.

Reconciliation between the expected and the actual taxation charge is provided below:

	Group		Bank	
In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Profit before tax	**64,382,779**	**71,188,480**	**64,282,702**	**70,962,570**
Theoretical tax charge at statutory rate (2014: 25%; 2013: 25%)	16,095,695	17,797,120	16,070,676	17,740,642
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Effect of income subject to lower rate	(450,000)	(450,000)	(450,000)	(450,000)
- Income which is exempt from taxation				
- Non-deductible expenses	839,983	354,670	839,983	354,670
- Income on government securities taxed at different rates	(2,103,087)	(3,904,298)	(2,103,087)	(3,904,298)
- Other	81,962	331,065	97,310	364,952
Income tax expense for the year	**14,464,553**	**14,128,557**	**14,454,882**	**14,105,966**

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2015: 25%):

In thousands of Mongolian Tugriks except for number of shares	**1 January 2014**	**Credited to profit or loss**	**Charged directly to equity**	**31 December 2014**
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	(5,247,586)	1,305,684	-	(3,941,902)
Fair value changes of financial instruments available for sale	1,347,850	(1,509,523)	-	(161,673)
Fair value changes of derivative financial instruments	(586,256)	(935,363)	-	(1,521,619)
Prepaid income – loan origination fee	1,526,102	138,271	-	1,664,374
Provision for guarantee and letter of credit	642,688	(642,688)	-	-
Loan and advances to customers- difference between BoM and IFRS provision	753,159	54,858	-	808,016
Others	64,870	(4,859)	-	60,011
Net deferred tax liability	**(1,499,173)**	**(1,593,620)**	**–**	**(3,092,793)**

In thousands of Mongolian Tugriks except for number of shares	**1 January 2013**	**Credited to profit or loss**	**Charged directly to equity**	**31 December 2013**
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	-	(5,247,586)	-	(5,247,586)
Fair value changes of financial instruments	1,108,167	239,683	-	1,347,850
Fair value changes of derivative financial instruments	-	(586,256)	-	(586,256)
Prepaid income – loan origination fee	937,739	588,363	-	1,526,102
Provision for guarantee and letter of credit	530,997	111,691	-	642,688
Loan and advances to customers- difference between BoM and IFRS provision	667,236	85,923	-	753,159
Others	54,344	10,526	-	64,870
Net deferred tax liability	**3,298,483**	**(4,797,656)**	**–**	**(1,499,173)**

31 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Change in value of:		
Change in fair value of available for sale investment securities, including repossessed financial collateral	(813,651)	3,221,262
Revaluation surplus on premises	-	8,212,178
Gains reclassified to profit or loss upon disposal of repossessed financial assets available for sale	(3,116,008)	-
Other comprehensive(loss)/income	**(3,929,659)**	**11,433,440**

As the above balances equate the Bank's and the Group additional disclosure is not required.

32 Dividends

	Group		**Bank**	
In thousands of Mongolian Tugriks	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	**–**	**–**	**–**	**–**
Dividends declared during the year	-	915,885	-	-
Dividends paid during the year	-	915,885	-	-
Dividends payable at 31 December	**–**	**–**	**–**	**–**
Dividends per share declared during the year	**–**	**5%**	**–**	**5%**

All dividends are declared and paid in Mongolian Tugriks. As the above balances equate the Bank's and the Group additional disclosure is not required.

33 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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 operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

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 sublimits 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 33, 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 (Note 11).

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.

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.

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 intraday 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.

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

33 Financial Risk Management (continued)

Currency risk (continued)

The table below summarises the Groups exposure to foreign currency exchange risk at 31 December 2014:

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	220,732,052	175,311,320	34,754,903	126,240,352	**557,038,818**
Mandatory cash balances with Bank of Mongolia	142,138,121	136,579,966	-	-	**278,718,087**
Financial assets at fair value through profit or loss	(1,141,807)	258,603	-	1,111,146	**227,942**
Due from other banks	75,721,180	147,979,192	18,348,509	25,875,301	**267,924,182**
Loans and advances to customers	2,082,819,908	373,944,125	3,294,945	1,861,060	**2,461,920,038**
Investment securities available for sale	55,651,238	-	45,409	5,324,084	**61,020,731**
Investment securities held to maturity	290,344,064	-	-	-	**290,344,064**
Other financial assets	4,184,552	745,819	588,810	17,618	**5,536,799**
Total monetary financial assets	**2,870,449,499**	**834,819,025**	**57,032,576**	**160,429,561**	**3,922,827,470**
Monetary financial liabilities					
Due to other banks	2,624	106,429,760	26,488,815	425,465	**133,346,664**
Customer accounts					**–**
-Current Accounts	340,597,004	345,270,931	6,750,196	21,755,349	**714,373,480**
-Demand Savings	252,532,389	119,167,667	7,730,188	26,680,534	**406,110,778**
-Time Savings	598,285,207	398,496,798	13,490,697	101,512,626	**1,111,785,328**
Reverse purchase agreements	251,646,410	-	-	-	**251,646,410**
Other borrowed funds	959,036,160	48,387,394	1,802,800	2,272,674	**1,011,499,028**
Subordinated debt	-	66,248,404	-	-	**66,248,404**
Other financial liabilities	17,786,519	4,418,027	632,031	520,229	**23,356,806**
Total monetary financial liabilities	**2,419,886,313**	**1,088,418,981**	**56,894,727**	**153,166,877**	**3,718,366,898**
Derivatives	**(243,905,999)**	**250,353,509**	**–**	**(361,035)**	**6,086,475**
Net balance sheet position	**206,657,187**	**(3,246,447)**	**137,849**	**6,901,649**	**210,450,238**

The table below summarises the Groups exposure to foreign currency exchange risk at 31 December 2013:

In thousands of Mongolian Tugriks	**MNT**	**USD**	**EUR**	**Other**	**Total**
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	158,492,477	115,951,529	8,987,752	27,501,048	**310,932,806**
Mandatory cash balances with Bank of Mongolia	178,725,501	81,084,042	-	-	**259,809,543**
Financial assets at fair value through profit or loss	(7,322,850)	192,554	-	7,314,850	**184,554**
Due from other banks	86,950	121,436,931	27,600,290	10,533,254	**159,657,425**
Loans and advances to customers	1,869,802,116	308,676,000	20,599,674	150,070	**2,199,227,860**
Investment securities available for sale	(1,522,774)	-	45,057	4,672,455	**3,194,738**
Investment securities held to maturity	731,014,385	-	-	-	**731,014,385**
Other financial assets	1,170,724	827,021	326,505	13,857	**2,338,107**
Total monetary financial assets	**2,930,446,313**	**628,168,077**	**57,559,278**	**50,185,534**	**3,666,359,418**
Monetary financial liabilities					
Due to other banks	168,145	2,150,625	23,689,134	455,036	**26,462,940**
Customer accounts					
-Current Accounts	373,040,798	170,942,020	6,768,311	12,930,870	**563,681,999**
-Demand Savings	253,008,301	101,857,413	5,869,506	17,399,593	**378,134,813**
-Time Savings	950,077,933	256,405,216	8,725,850	4,753,017	**1,219,962,016**
Debt securities in issue	167,154,900	-	-	-	**167,154,900**
Other borrowed funds	982,982,826	36,273,864	12,952,015	110,516	**1,032,319,221**
Subordinated debt	-	58,261,173	-	-	**58,261,173**
Other financial liabilities	10,160,661	4,375,421	90,912	706,750	**15,333,744**
Total monetary financial liabilities	**2,736,593,564**	**630,265,732**	**58,095,728**	**36,355,782**	**3,461,310,806**
Derivatives	**(11,731,609)**	**14,282,559**	**–**	**–**	**2,550,950**
Net balance sheet position	**182,121,140**	**12,184,904**	**(536,450)**	**13,829,752**	**207,599,346**

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In thousands of Mongolian Tugriks	**At 31 December 2014**	**At 31 December 2013**
US Dollar strengthening by 14% (2013 strengthening by 19%)	(454,503)	2,315,132
US Dollar weakening by 14% (2013 weakening by 19%)	454,503	(2,315,132)
Euro strengthening by 1% (2013 strengthening by 24%)	1,378	(128,748)
Euro weakening by 1% (2013 weakening by 24%)	(1,378)	128,748
CNY Chinese Yuan strengthening by 11% (2013 strengthening by 22%)	(81,445)	60,534
CNY Chinese Yuan weakening by 11% (2013 weakening by 22%)	81,445	(60,534)
HKD Hong Kong Dollar strengthening by 14% (2013 strengthening by 19%)	947,220	2,308,170
HKD Hong Kong Dollar weakening by 14% (2013 weakening by 19%)	(947,220)	(2,308,170)
Other strengthening by 1% (2013 strengthening by 1%)	12,369	12,818
Other weakening by 1% (2013 weakening by 1%)	(12,369)	(12,818)

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.

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

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2014						
Financial assets	1,654,899,047	484,556,927	463,151,361	840,013,189	486,196,612	3,928,817,136
Financial liabilities	1,787,248,984	1,108,813,531	359,161,638	424,393,696	38,749,049	3,718,366,898
Net interest sensitivity gap at 31 December 2014	**(132,349,937)**	**(624,256,604)**	**103,989,723**	**415,619,493**	**447,447,563**	**210,450,238**
At 31 December 2013						
Financial assets	1,413,156,981	437,785,321	413,257,208	959,982,799	444,727,842	3,668,910,151
Financial liabilities	1,480,627,103	987,317,648	443,999,351	515,737,317	33,629,386	3,461,310,805
Net interest sensitivity gap at 31 December 2013	**(67,470,122)**	**(549,532,327)**	**(30,742,143)**	**444,245,482**	**411,098,456**	**207,599,346**

The Bank is exposed to interest rate risk due to net interest rate sensitivity gap due to significantly higher interest bearing assets compared to interest bearing liabilities. If interest rates at 31 December 2014 had been 10% higher/(lower) with all other variables held constant, the financial result for 2014 would be have been MNT 21,045,024 thousand higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2014.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2014, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 12,905,406 thousand higher/(lower).
Based on the sensitivity analysis performed as of 31 December 2013, as well as for average exposures during 2013, and reasonable shifts in interest rates based on interest rate movements during 2013, management believes that the Bank's profit for year ended 31 December 2013 is not materially affected by changes in interest rates.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2014				2013			
In % p.a.	**MNT**	**USD**	**Euro**	**Other**	**MNT**	**USD**	**Euro**	**Other**
Assets								
Due from other banks	13.5%	-	-	-	1.8%	-	-	-
Loans and advances to customers	12.5%	11.9%	8.8%	12.5%	13.3%	14.2%	8.9%	11.4%
Investment securities held to maturity	11.9%	-	-	-	10.2%	-	-	-
Liabilities								
Due to other banks	-	2.1%	6.6%	5.1%	4.7%	-	6.0%	-
Customer accounts								
- Current/settlement accounts	1.8%	0.7%	0.5%	-	1.3%	0.5%	0.6%	-
- Demand deposits	6.7%	3.4%	1.9%	1.3%	7.1%	3.0%	1.8%	1.2%
- Time deposits	13.5%	7.4%	3.8%	2.8%	11.9%	7.6%	3.6%	2.5%
Reverse repurchase agreement	13.9%	-	-	-	12.5%	-	-	-
Other borrowed funds	4.0%	3.8%	1.7%	6.8%	4.3%	3.1%	4.5%	6.5%
Subordinated debt	-	5.1%	-	-	-	4.2%	-	-

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

Geographical risk concentrations

The Group is exposed to geographical concentration risk, as almost all of its financial assets are placed in Mongolia as of 31 December 2014 and 31 December 2013. A major part of the financial liabilities for 31 December 2014 relates to Mongolia. The concentration is lower in case of financial liabilities for 31 December 2013, as all subordinated debt is received from international financial institutions.

The management believes that the Group's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentrations

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, the Bank of Mongolia ("Central Bank") sets the following limits:

i. The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20 percent of the capital of the Bank;
ii. The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed the 5 percent of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20 percent of the capital of the Bank.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Notes 10.

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 liquidity ratio during the year was as follows:

	2014	2013
31st December	38.28%	43.33%
Average during the period	35.84%	42.81%
Highest	39.09%	46.62%
Lowest	31.41%	39.84%

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 2014 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 Central BoM exchange rates effective at the end of the reporting period.

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with central bank (other than mandatory reserve)	557,038,818	-	-	-	-	**557,038,818**
Mandatory cash balances with the Bank of Mongolia	278,718,087	-	-	-	-	**278,718,087**
Financial assets at fair value through profit or loss	227,942	-	-	-	-	**227,942**
Due from other banks	267,504,223	568,748	-	-	-	**268,072,971**
Loans and advances to customers	262,394,107	489,451,890	488,030,421	1,115,046,298	1,269,394,424	**3,624,317,140**
Investment securities available for sale	61,020,731	-	-	-	-	**61,020,731**
Investment securities held to maturity	217,316,287	12,023,531	8,660,503	49,085,597	33,657,325	**320,743,243**
Derivative financial instruments-asset	6,086,475	-		-	-	**6,086,475**
Other financial assets	5,536,799	-	-	-	-	**5,536,799**
Total Financial Asset	**1,655,843,469**	**502,044,169**	**496,690,924**	**1,164,131,895**	**1,303,051,749**	**5,121,762,206**
Liabilities						
Due to other banks	112,848,957	20,862,295	-	-	–	**133,711,252**
Customer accounts						**–**
-Current Accounts	714,373,480	-	-	-	–	**714,373,480**
-Demand Savings	406,110,778	-	-	-	–	**406,110,778**
-Time Savings	269,996,599	517,749,939	304,310,849	67,427,560	-	**1,159,484,947**
Other borrowed funds	9,035,918	546,434,971	79,830,224	407,795,401	49,293,239	**1,092,389,752**
REPO arrangements	252,181,431	-	-	-	-	**252,181,431**
Subordinated debt	859,558	47,969,353	2,534,133	29,082,369	-	**80,445,413**
Other financial liabilities	23,356,806	-	-	-	-	**23,356,806**
Total Financial Liabilities	**1,788,763,527**	**1,133,016,558**	**386,675,206**	**504,305,330**	**49,293,239**	**3,862,053,860**
Credit related commitments	**173,568,338**	**–**	**–**	**–**	**–**	**173,568,338**
Guarantee and ILC	145,679,939	-	-	-	-	145,679,939
Credit Line undrawn	27,888,399	-	-	-	-	27,888,399
Net Gap	**(306,488,396)**	**(630,972,389)**	**110,015,718**	**659,826,565**	**1,253,758,510**	**1,086,140,008**
Accumulated Net Gap	**(306,488,396)**	**(937,460,785)**	**(827,445,067)**	**(167,618,502)**	**1,086,140,008**	

33 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	310,932,590	-	-	-	-	310,932,590
Mandatory cash balances with the Bank of Mongolia	259,809,543	-	-	-	-	259,809,543
Financial assets at fair value through profit or loss	184,554	-	-	-	-	184,554
Due from other banks	159,870,903	30,000	-	-	-	159,900,903
Loans and advances to customers	121,143,387	371,887,799	376,374,934	1,030,706,278	1,008,132,234	2,908,244,632
Investment securities available for sale	3,394,738	-	-	-	-	3,394,738
Investment securities held to maturity	554,980,364	72,572,343	-	118,977,556	10,526,131	757,056,394
Derivative financial instrument	2,550,950	-	-	-	-	2,550,950
Other financial assets	2,338,106	-	-	-	-	2,338,106
Total financial assets	**1,415,205,135**	**444,490,142**	**376,374,934**	**1,149,683,834**	**1,018,658,365**	**4,404,412,410**
Liabilities						
Due to other banks	2,863,898	21,621,000	2,401,870		-	**26,886,768**
Customer Deposits						
-Current Accounts	563,682,062	-	-	-	-	**563,682,062**
-Demand Savings	378,134,813	-	-	-	-	**378,134,813**
-Time Savings	381,267,877	519,466,305	315,077,729	56,814,413	-	**1,272,626,324**
REPO arrangements	167,269,390	-	-	-	-	**167,269,390**
Other borrowed funds	4,894,515	448,559,805	149,370,458	475,556,685	34,489,057	**1,112,870,520**
Subordinated debt	507,272	1,156,036	1,139,316	59,759,547	-	**62,562,171**
Other financial liabilities	15,333,744	-	-	-	-	**15,333,744**
Total financial liabilities	**1,513,953,571**	**990,803,146**	**467,989,373**	**592,130,645**	**34,489,057**	**3,599,365,792**
Net balance sheet position	**(98,748,434)**	**(546,313,004)**	**(91,614,441)**	**557,553,189**	**984,169,308**	**805,046,618**
Credit related commitment	**218,073,897**	**–**	**–**	**–**	**–**	**218,073,897**
Guarantee and letters of credit	186,027,888	-	-	-	-	186,027,888
Loan commitment	32,046,009	-	-	-	-	32,046,009
Net Gap	**(316,822,331)**	**(546,313,004)**	**(91,614,441)**	**557,553,189**	**984,169,308**	**586,972,721**
Accumulated Net Gap	**(316,822,331)**	**(863,135,335)**	**(954,749,776)**	**(397,196,587)**	**586,972,721**	

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments at 31 December 2014:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	557,038,818	-	-	-	-	**557,038,818**
Mandatory cash balances with the bank of Mongolia	278,718,087	-	-	-	-	**278,718,087**
Financial assets at fair value through profit or loss	227,942	-		-	-	**227,942**
Due from other banks	267,319,860	604,322	-	-	-	**267,924,182**
Loans and advances to customers	262,128,136	472,324,411	455,231,907	798,490,897	473,744,687	**2,461,920,038**
Investment securities available for sale	61,020,731	-	-	-	-	**61,020,731**
Derivative financial instruments-asset	6,086,475	-	-	-	-	**6,086,475**
Investment securities held to maturity	216,822,199	11,628,194	7,919,454	41,522,292	12,451,925	**290,344,064**
Other financial assets	5,536,799	-	-	-	-	**5,536,799**
Total assets	**1,654,899,047**	**484,556,927**	**463,151,361**	**840,013,189**	**486,196,612**	**3,928,817,136**
Liabilities						
Due to other banks	112,706,424	20,640,240	-	-	**–**	**133,346,664**
Customer Deposits						**–**
-Current Accounts	714,373,480					**714,373,480**
-Demand Savings	406,110,778					**406,110,778**
-Time Savings	269,169,964	504,372,788	280,246,060	57,996,516	-	**1,111,785,328**
Other borrowed funds	9,025,565	536,660,503	78,915,578	348,148,334	38,749,049	**1,011,499,028**
REPO arrangements	251,646,410	-	-	-	-	**251,646,410**
Subordinated debt	859,558	-	-	65,388,846	-	**66,248,404**
Other financial liabilities	23,356,806	-	-	-	-	**23,356,806**
Total Liabilities	**1,787,248,984**	**1,061,673,531**	**359,161,638**	**471,533,696**	**38,749,049**	**3,718,366,898**
Liquidity gap arising from financial instruments	**(132,349,937)**	**(577,116,604)**	**103,989,723**	**368,479,493**	**447,447,563**	**210,450,238**
Accumulated Net Gap	**(132,349,937)**	**(709,466,541)**	**(605,476,818)**	**(236,997,325)**	**210,450,238**	

33 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments at 31 December 2013:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	310,932,590	-	-	-	-	**310,932,590**
Mandatory cash balances with the bank of Mongolia	259,809,543	-	-	-	-	**259,809,543**
Financial assets at fair value through profit or loss	184,554	-	-	-	-	**184,554**
Due from other banks	159,160,430	496,995	-	-	-	**159,657,425**
Loans and advances to customers	118,916,807	367,842,320	357,410,132	917,705,369	437,353,232	**2,199,227,860**
Investment securities available for sale	3,194,738	-	-	-	-	**3,194,738**
Investment securities held to maturity	556,069,263	69,446,006	55,847,076	42,277,430	7,374,610	**731,014,385**
Derivative financial instrument	2,550,950	-	-	-	-	**2,550,950**
Other financial assets	2,338,106	-	-	-	-	**2,338,106**
Total financial assets	**1,413,156,981**	**437,785,321**	**413,257,208**	**959,982,799**	**444,727,842**	**3,668,910,151**
Liabilities						
Due to other banks	2,863,898	21,283,209	2,315,833	-	-	**26,462,940**
Customer Deposits						
-Current Accounts	563,682,061	-	-	-	-	**563,682,061**
-Demand Savings	378,134,813	-	-	-	-	**378,134,813**
-Time Savings	348,059,796	524,141,183	298,165,409	49,595,566	-	**1,219,961,954**
Other borrowed funds	4,890,618	441,933,332	143,574,905	408,290,980	33,629,386	**1,032,319,221**
REPO arrangements	167,154,900	-	-	-	-	**167,154,900**
Subordinated debt	507,272	-	-	57,753,901	-	**58,261,173**
Other financial liabilities	15,316,744	-	-	-	-	**15,316,744**
Total financial liabilities	**1,480,610,102**	**987,357,724**	**444,056,147**	**515,640,447**	**33,629,386**	**3,461,293,806**
Liquidity gap arising from financial instruments	**(67,453,121)**	**(549,572,403)**	**(30,798,939)**	**444,342,352**	**411,098,456**	**207,616,345**
Accumulated Net Gap	**(67,453,121)**	**(617,025,524)**	**(647,824,463)**	**(203,482,111)**	**207,616,345**	

As the above analysis is based on expected maturity, the entire portfolio of financial assets available for sale is categorised as "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.

34 Management of Capital

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central BoM, namely the requirements of the deposit insurance system; to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a 14% (2013:14%) capital adequacy ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the 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 Chief Financial Officer of the Bank.

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 Central BoM, 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 Bank of Mongolia legislation:

	31 December 2014	**31 December 2013**
Core capital ratio	12.74%	12.41%
Risk weighted capital ratio	17.06%	16.55%

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Tier I capital		
Ordinary shares	26,217,093	25,907,593
Share premium	44,699,421	42,322,298
Retained earnings	222,670,665	173,390,689
Other components of equity	529,793	5,626,103
Excess of provision over The BOM requirement	-	(75,742)
Investment in financial institutions 75%	(1,433,250)	(1,433,250)
Total Tier I Capital	**292,683,722**	**245,737,691**
Tier II capital		
Subordinated loans	65,996,000	57,893,500
Preferred shares	25,778,900	16,388,100
Revaluation fund	7,844,139	8,212,178
Investment in financial institutions 25%	(477,750)	(477,750)
Total Tier II Capital	**99,141,289**	**82,016,028**
Total capital/capital base	**391,825,011**	**327,753,719**

Investment in financial institutions relate to investment in shares of financial institutions, which are disclosed as investments available for sale in Note 12.

35 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of current claims. Accordingly no provision has been made in these financial statements in respect of such claims.

As of 31 December 2013, the Group was involved as defendant in litigation proceedings with Stanhope Investments in relation to its subordinated debt (Note 25) at London High Court Proceedings. The total Group's exposure as of 31 December 2013 was approximately USD 35.9 million (approximately MNT 59.3 billion), which included the amounts of principal, interest and penalty interest and "No IPO" premium. No provision was recognised in the Group's financial statements, given the agreement with the Group's major shareholder, Bodi International LLC, that any cash outflows that could arise in closing these proceedings, including repayment of subordinated debt to Stanhope Investments, would be covered by Bodi International LLC.

On 30 April 2014 ADIC, the owner of Stanhope Investments, the Bank and Bodi International LLC (the Bank's main shareholder) signed a "Transfer and Settlement Deed". Based on this agreement, the subordinated debt was transferred from Stanhope Investments to Bodi International LLC, and the final claim amount was reduced to approximately USD 25.2 million. Bodi International LLC transferred this amount to Stanhope Investments on 25 April 2014 and upon this transfer, London High Court Proceedings was closed. Based on the Group's management knowledge, the Bank has no further obligations or exposure as of 31 December 2014 in relation to Stanhope Investments or any other party involved in this case.

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

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

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

Management believes that its interpretation of the relevant legislation is appropriate and the Bank's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular reassessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of 31 December 2014 and 2013, management has assessed that recognition of a provision for uncertain tax position is not necessary.

Operating lease commitments. The Bank has no long-term non-cancellable operating leases, but annual operating leases and long term land leases, which can be cancelled under relatively short notice. Thus, management believes that the amount of the future minimum lease payments under non-cancellable operating leases is not material.

Compliance with covenants. The Bank is subject to certain covenants related primarily to its other borrowed funds and subordinated debt. Non-compliance with such covenants may result in negative consequences for the Bank including increase in the cost of borrowings and declaration of default.

As disclosed in Notes 22, there were no breaches of covenants that would require immediate repayment of the borrowings (including subordinated debt) as of 31 December 2014.

Credit related 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.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Financial guarantees issued	58,502,772	35,940,688
Performance guarantees issued	84,783,581	165,607,635
Letters of credit	2,393,586	4,169,898
Less: provision for impairment of credit related commitments	-	(2,578,818)
Undrawn credit lines	27,888,399	31,770,375
Total credit related commitments	**173,568,338**	**234,909,777**

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 has not recognized provision on credit related commitments as of 31 December 2014, as the management is not aware of any losses incurred due to the deterioration of the financial conditions of the customers. As of 31 December 2014 losses on credit related commitments are not considered probable and cannot be reliably measured. The provision for credit related commitments of MNT 2,578,818 thousand relates to the guarantee issued to a Mongolian company in 2012, which subsequently experienced financial difficulties, and thus related provision is recognised as of 31 December 2012 and as of 31 December 2013. The Bank has not incurred any cash outflows related to this guarantee and the provision is released during 2014, as the Bank no longer has obligations to act as a guarantor.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 278,718,087 thousand (31 December 2013: MNT 259,809,543 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

Treasury bills issued by the Bank of Mongolia in the amount of MNT 209,591,218 thousand (2013: 549,098,116 thousand) and Government bonds in the amount of MNT 42,055,192 thousand (2013: -) represent collateral for sales and repurchase agreements with local banks (Note 23). In case the borrowing bank does not have sufficient funds on its current account with the Bank of Mongolia to return amounts borrowed under repurchase agreements to the lending bank within 5 days from the maturity of repurchase agreements, the payments of principal and interest on related treasury bills and government bonds are transferred by the Bank of Mongolia to the lending bank.

36 Derivative Financial Instruments

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

36 Derivative Financial Instruments (continued)

Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Gross amounts before off-setting in the statement of financial position and related net amounts are given below.

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	9,525,115	9,522,880
- Financial assets at fair value through profit or loss	(3,438,680)	(6,971,930)
Foreign exchange forwards and swaps , net fair value	**6,086,475**	**2,550,950**

In thousands of Mongolian Tugriks	**31 December 2014**	**31 December 2013**
Assets		
Derivative held for trading-forward foreign currency exchange contract	6,086,475	2,550,950
Liabilities		
Embedded derivative	-	962,305
Derivative financial instruments, net	**6,086,475**	**1,588,645**

In thousands of Mongolian Tugriks	**2014**	**2013**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	287,457,705	47,364,559
- USD payable on settlement (-)	(37,104,196)	(33,082,000)
- MNT receivable on settlement (+)	33,335,455	35,263,000
- MNT payable on settlement (-)	(277,241,454)	(46,994,609)
- Other currencies receivable on settlement (+)	343,665	
- Other currencies receivable on settlement (-)	(704,700)	
Net fair value of foreign exchange forwards and swaps	**6,086,475**	**2,550,950**

37 Fair Value Disclosures

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.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2014				2013			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Financial assets at fair value through profit or loss	227,942	-	-	227,942	184,554	-	-	184,554
Investment securities available for sale	422,284	-	60,598,447	61,020,731	796,642	3,194,738	-	3,991,380
Repossessed collateral	-	-	-	-	9,512,024	-	-	9,512,024
Other financial assets								
Financial derivatives	-	6,086,475	-	6,086,475	-	2,550,950	-	2,550,950
Non-financial assets								
Premises	-	-	59,928,997	59,928,997	-	-	22,175,497	22,175,497
Investment properties	-	-	1,209,050	1,209,050	-	-	1,209,050	1,209,050
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**650,226**	**6,086,475**	**121,736,494**	**128,473,195**	**10,493,220**	**5,745,688**	**23,384,547**	**39,623,455**
LIABILITIES CARRIED AT FAIR VALUE FINANCIAL LIABILITIES								
Other financial liabilities								
Financial derivatives	-	-	-	-	-	962,305	-	962,305
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**–**	**–**	**–**	**–**	**–**	**962,305**	**–**	**962,305**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of Mongolian Tugriks	**2014 Fair value**	**2013 Fair value**	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	6,086,475	2,550,950	Interest rate parity analysis	Inter-bank rates of each currency
Liabilities carried at fair value Financial liabilities				
Other financial liabilities				
Financial derivatives	-	962,305	Interest rate parity analysis	Inter-bank rates of each currency
Total recurring fair value measurements at level 2	6,086,475	3,513,255		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2014 and 2013.

37 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value						
Non-financial assets						
Premises	59,928,997	Market value	Discounted cash flow	Comparable market data	10%	5,992,900
Investment properties	1,209,050	Market value	Discounted cash flow	Comparable market data	10%	120,905
Total recurring fair value measurements at level 3	**61,138,047**					**6,113,805**

Investment securities available for sale, which are classified as level 3 for fair value measurement purposes, mostly relate to the Bank's investment in the investment units of the first investment fund established in Mongolia in the amount of MNT 58,000,000 thousand (refer to the Notes 3 and 12). As this investment was made at the price available to other third-parties, investment purchase has occurred close to 31 December 2014 and there were no substantial changes in the Fund's operations since this purchase, management believes that this investment was purchased at market price and that the fair value of this investment as of 31 December 2014 approximates its carrying value. For management's judgments on investment in this fund, refer to Note 3. Management believes that the fair value of remaining unquoted investments in available for sale investment securities is unlikely to be materially different from their carrying value as of 31 December 2014 and that current disclosures are sufficient from the perspective of the users of financial statements.

If the market price of available for sale investment securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 6,059,845 thousand.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2013:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value						
Non-financial assets						
Premises	22,175,497	Market value	Discounted cash flow	Comparable market data	10%	**2,217,549**
Investment properties	1,209,050	Market value	Discounted cash flow	Comparable market data	10%	120,905
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**23,384,547**					**2,338,454**

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2014. During the year ended 31 December 2013 the Group started to apply the revaluation model for both the premises and investment properties whilst in previous years the cost model was utilised.

There were no movements in and out of the categories during the years ended 31 December 2014 and 2013.

(b) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed on a yearly basis by the Group's Asset Management Division with the aid of an external valuator. Management considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the real estate market.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2014 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**–**	**557,038,818**	**–**	**557,038,818**
Cash on hand	-	100,567,560	-	100,567,560
Current account with the central bank	-	456,471,258	-	456,471,258
Mandatory cash balances with the Bank of Mongolia	**278,718,087**	**–**	**–**	**278,718,087**
Due from other banks	**–**	**267,954,182**		**267,954,182**
Correspondent accounts with other banks				
Domestic	-	12,050,621	-	12,050,621
Foreign	-	179,606,349	-	179,606,349
Short term placements with other banks				
Domestic	-	75,658,290	-	75,658,290
Placements with other banks with maturities of more than three months	-	638,921	-	638,921
Loans and advances to customers	**–**	**–**	**2,440,940,074**	**2,461,920,038**
Corporate loans	-	-	1,102,001,120	1,115,010,995
Loans to small and medium business	-	-	526,696,390	530,867,910
Consumer loans to individuals	-	-	192,293,850	194,305,341
Mortgage loans to individuals	-	-	619,948,714	621,735,792
Investment securities held to maturity	**–**	**290,344,064**	**–**	**290,344,064**
Other financial assets	**–**	**5,536,799**	**–**	**5,536,799**
Total financial assets carried at amortized cost	**278,718,087**	**1,120,873,863**	**2,440,940,074**	**3,861,511,988**

37 Fair Value Disclosures (continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2013 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and cash equivalents	**–**	**310,932,590**	**–**	**310,932,590**
Cash on hand	-	94,632,052	-	94,632,052
Current account with the central bank	-	216,300,538	-	216,300,538
Mandatory reserves in Bank of Mongolia	**259,809,543**	-	-	**259,809,543**
Due from other banks	-	**159,657,425**	-	**159,657,425**
Correspondent accounts with other banks				
Domestic	-	5,078,753	-	5,078,753
Foreign	-	145,754,357	-	145,754,357
Short term placements of other banks				
Domestic	-	30,313	**–**	30,313
Foreign	-	8,270,684	-	8,270,684
Placement with other banks with original maturities of more than three months	-	523,318	-	523,318
Loans and advances to customers	-	-	**2,199,227,860**	**2,199,227,860**
Corporate loans	-	-	917,747,369	917,747,369
Loans to small and medium business	-	-	625,161,233	625,161,233
Consumer loans to individuals	-	-	170,754,250	170,754,250
Mortgage loans to individuals	-	-	485,565,008	485,565,008
Financial assets at fair value through profit or loss	-	**184,554**	**–**	**184,554**
Investment securities held to maturity	-	**731,014,385**	-	**731,014,385**
Other financial assets	-	**2,338,106**	-	**2,338,106**
Total financial assets carried at amortized cost	**259,809,543**	**1,204,127,060**	**2,199,227,860**	**3,663,164,463**

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2014 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**–**	**132,298,468**	**–**	**133,346,664**
Short-term placements of other banks	-	27,038,904	-	27,038,904
Long-term placement of other banks	-	105,259,564	-	106,307,760
REPO Agreements				
Sale and repurchase agreements with other banks	-	251,646,410	-	251,646,410
Customer Accounts	**98,429,148**	**10,740,621**	**–**	**109,226,946**
- Current/settlement accounts	76,135,907	-	-	76,135,907
- Demand deposits	22,293,241	-	-	22,293,241
- Term deposits	-	10,740,621	-	10,797,798
Legal entities	**558,319,986**	**289,756,401**	**–**	**848,034,086**
- Current/settlement accounts	529,980,889	-	-	529,980,889
- Demand deposits	28,339,097	-	-	28,339,097
- Term deposits	-	289,756,401	-	289,714,100
Individuals	**446,422,716**	**804,921,908**	**–**	**1,251,639,366**
- Current/demand accounts	93,938,972	-	-	93,938,972
- Demand deposits	352,483,744	-	-	352,483,744
- Term deposits	-	804,921,908	-	805,216,650
Other	**17,312,408**	**6,034,550**	**–**	**23,369,188**
- Current/demand accounts	14,317,713	-	-	14,317,713
- Demand deposits	2,994,696	-	-	2,994,696
- Term deposits	-	6,034,550	-	6,056,779
Other borrowed funds	**–**	**1,011,499,028**	**–**	**1,011,499,028**
Subordinated debt	**–**	**66,248,404**	**–**	**66,248,404**
Other financial liabilities	**–**	**23,356,806**	**–**	**23,356,806**
Total financial liabilities carried at amortized cost	**1,120,484,258**	**2,344,856,186**	**–**	**3,466,720,488**

37 Fair Value Disclosures (continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2013 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**–**	**26,462,940**	**–**	**26,462,940**
Short-term placements of other banks	-	2,763,898	-	2,763,898
Long-term placement of other banks	-	23,699,042	-	23,699,042
Sale and repurchase agreements with other banks	**–**	**167,154,900**	**–**	**167,154,900**
Customer Accounts				
State and public organizations	**55,747,742**	**31,036,743**	**–**	**86,784,485**
- Current/settlement accounts	55,277,139		-	55,277,139
- Demand deposits	470,603		-	470,603
- Term deposits	-	31,036,743	-	31,036,743
Legal entities	**417,270,602**	**193,141,088**	**–**	**610,411,690**
- Current/settlement accounts	399,239,974		-	399,239,974
- Demand deposits	18,030,628		-	18,030,628
- Term deposits	-	193,141,088	-	193,141,088
Individuals	**456,045,694**	**763,291,996**	**–**	**1,219,337,690**
- Current/demand accounts	97,763,417		-	97,763,417
- Demand deposits	358,282,277		-	358,282,277
- Term deposits	-	763,291,996	-	763,291,996
Other	**12,752,838**	**232,492,126**	**–**	**245,244,964**
- Current/demand accounts	11,401,532		-	11,401,532
- Demand deposits	1,351,306		-	1,351,306
- Term deposits	-	232,492,126	-	232,492,126
Other borrowed funds	**–**	**1,032,319,221**	**–**	**1,032,319,221**
Subordinated debt	**–**	**58,261,173**	**–**	**58,261,173**
Other financial liabilities	**–**	**15,316,744**	**–**	**15,316,744**
Total financial liabilities carried at amortized cost	**941,816,876**	**2,519,476,931**	**–**	**3,461,293,807**

38 Presentation of Financial Instruments by Measurement Category

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

Held to maturity presentation class includes 1) loans and receivables and 2) held to maturity measurement classes. Thus, certain held-to-maturity investment securities disclosed in Note 12 (government bonds and treasury bills) are treated as loans and receivables and are disclosed as such in the table below.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2014:

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL	Trading assets	Held to maturity	Total
Financial assets						
Cash and balances with central bank (other than mandatory reserve)	**557,038,818**	**–**	**–**	**–**	**–**	**557,038,818**
Cash on hand	100,567,560	-	-	-	-	100,567,560
Current account with the central bank	456,471,258	-	-	-	-	456,471,258
Mandatory cash balances with the Bank of Mongolia	**278,718,087**	**–**	**–**	**–**	**–**	**278,718,087**
Financial assets at fair value through profit or loss	**–**	**–**	**227,942**	**–**	**–**	**227,942**
Due from other banks	**267,954,182**	**–**	**–**	**–**	**–**	**267,954,182**
Correspondent accounts with other banks						
Domestic	12,050,621	-	-	-	-	12,050,621
Foreign	179,606,349	-	-	-	-	179,606,349
Short term placements with other banks						
Domestic	75,658,290	-	-	-	-	75,658,290
Placements with other banks with maturities of more than three months	638,922	-	-	-	-	638,922
Loans and advances to customers	**2,461,920,038**	**–**	**–**	**–**	**–**	**2,461,920,038**
Corporate loans	1,115,010,995	-	-	-	-	1,115,010,995
Loans to small and medium business	530,867,910	-	-	-	-	530,867,910
Consumer loans to individuals	194,305,341	-	-	-	-	194,305,341
Mortgage loans to individuals	621,735,792	-	-	-	-	621,735,792
Investment Securities Available for Sale	**–**	**61,020,731**	**–**	**–**	**–**	**61,020,731**
Investment securities held to maturity	**275,559,564**	**–**	**–**	**–**	**14,784,500**	**290,344,064**
Derivative financial instruments	**–**	**–**	**–**	**6,086,475**	**–**	**6,086,475**
Other financial assets:	**5,536,799**	**–**	**–**	**–**	**–**	**5,536,799**
Receivables on cash and settlements services	1,351,020	-	-	-	-	1,351,020
Receivable from individuals	596,627	-	-	-	-	596,627
Receivable from companies	193,774	-	-	-	-	193,774
Other	3,395,378	-	-	-	-	3,395,378
Total financial assets	**3,846,727,488**	**61,020,731**	**227,942**	**6,086,475**	**14,784,500**	**3,928,847,136**

38 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2013:

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL	Trading assets	Held to maturity	Total
Financial assets						
Cash and balances with central bank (other than mandatory reserve)	**310,932,590**	**–**	**–**		**–**	**310,932,590**
Cash on hand	94,632,052	-	-		-	94,632,052
Current account with the central bank	216,300,538	-	-		-	216,300,538
Mandatory cash balances with the Bank of Mongolia	**259,809,543**	**–**	**–**		**–**	**259,809,543**
Financial assets at fair value through profit or loss	**–**	**–**	**184,554**		**–**	**184,554**
Due from other banks	**159,657,425**	**–**	**–**		**–**	**159,657,425**
Correspondent accounts with other banks						
Domestic	5,078,753	-	-		-	5,078,753
Foreign	145,754,357	-	-		-	145,754,357
Short term placements with other banks						
Domestic	30,313	-	-		-	30,313
Foreign	8,270,684					8,270,684
Placements with other banks with maturities of more than three months	523,318	-	-		-	523,318
Loans and advances to customers	**2,199,227,860**	**–**	**–**		**–**	**2,199,227,860**
Corporate loans	917,747,369	-	-		-	917,747,369
Loans to small and medium business	625,161,233	-	-		-	625,161,233
Consumer loans to individuals	170,754,250	-	-		-	170,754,250
Mortgage loans to individuals	485,565,008	-	-		-	485,565,008
Investment securities available for sale	**–**	**3,194,738**	**–**		**–**	**3,194,738**
Derivative financial instruments	**–**	**–**	**–**	**2,550,950**	**–**	
Investment securities held to maturity	**704,037,503**	**–**	**–**		**26,976,882**	**731,014,385**
Other financial assets:	**2,338,106**	**–**	**–**		**–**	**2,338,106**
Receivables on cash and settlements services	1,426,774	-	-		-	1,426,774
Receivable from individuals	17,073	-	-		-	17,073
Receivable from companies	164,653	-	-		-	164,653
Other	729,606	-	-		-	729,606
Total financial assets	**3,636,003,027**	**3,194,738**	**184,554**	**2,550,950**	**26,976,882**	**3,666,359,201**

As of 31 December 2014 and 31 December 2013, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

39 Related Party Transactions

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.

Related party categories are as follows:

Bodi International LLC	Previous main shareholder of the Bank prior to the transfer of the Bank to Golomt Financial Group. Following the transfer it remains related party as it has the same major shareholder as Golomt Financial Group.
Golomt Financial Group LLC	Main shareholder of the Bank
Other	Subsidiaries of Bodi International LLC and Golomt Financial Group
Directors and key management personnel	The Board of Directors and executive managers of the Bank

For information on the Bank's immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2014 and 31 December 2013, refer to Note 1.

Bodi International LLC was owned by three individual shareholders (including Mr. Bayasgalan D.), each having significant influence over this company's financial and operating policy decisions, until 12 November 2013. From November 2013, Bodi International LLC is fully owned by Mr. Bayasgalan D., while the ownership over several entities previously owned by Bodi International LLC have been transferred to the other shareholder. As a result, related entities owned by Bodi International LLC until November 2013, represent related parties of the Bank for approximately 10 months of 2013 until this transfer of ownership took place on 12 November 2013. The amounts of related transactions with these entities during 2013 are disclosed within this note within 'Other related parties' caption, unless considered not material from the perspective of the users of financial statements by management.

At 31 December 2014, the outstanding balances with related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Bodi International**	**Golomt Financial Group**	**Golomt Securities LLC**	**Other**	**Total**
Gross amount of loans and advances to customers (contractual interest rate 6% - 24%)	1,180,225	18,070,000	-	-	43,930,806	**63,181,031**
Investment in subsidiaries	-	-	-	200,000	-	**200,000**
Derivative financial instrument (notional amount: MNT 65,996,000)	-	-	3,608,452	-	-	**3,608,452**
Customer accounts (contractual interest rate 0% - 16.8%)	1,556,442	67,382,415	493,217	186,299	1,891,620	**71,509,993**
Subordinated debts (contractual interest rate 4.5% - 6%)	-	-	66,248,404	-	-	**66,248,404**

39 Related Party Transactions (continued)

At 31 December 2013, the outstanding balances with related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 24%)	1,231,480	-	-	-	24,927,907	**26,159,387**
Investment in subsidiaries	-	-		200,000	-	**200,000**
Customer accounts (contractual interest rate 0% - 16%)	787,781	1,811,576	-	344,335	3,513,538	**6,457,230**
Subordinated debts (contractual interest rate 6%)	-	16,901,223	-	-	-	**16,901,223**

Movement in the loans and advances to related party at 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**6%-14%**	**15%**	**N/A**	**N/A**	**10%-22%**	
Loans to customers						
Loans to customers as at 1 January (gross)	1,231,480	-	-	-	24,927,907	26,159,387
Loans to customers issued during the year	1,252,699	35,829,150	-	-	40,281,974	77,363,823
Loans to customers repaid during the year	(968,484)	(18,066,925)			(22,801,756)	(41,837,165)
Exchange difference	(335,470)	307,775	-	-	1,522,681	1,494,986
Loans to customers as at 31 December (gross)	**1,180,225**	**18,070,000**	**–**	**–**	**43,930,806**	**63,181,031**

Movement in the loans and advances to related party at 31 December 2013 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**6%-8%**	**N/A**	**N/A**	**N/A**	**10%-12%**	
Loans to customers						
Loans to customers as at 1 January (gross)	9,540,034	-	-		13,338,836	22,878,870
Loans to customers issued during the year	863,239	-	-		32,567,264	33,430,503
Loans to customers repaid during the year	(9,296,344)	-	-		(19,303,371)	(28,599,715)
Exchange difference	124,551	-	-		(1,674,822)	(1,550,271)
Loans to customers as at 31 December (gross)	**1,231,480**	**–**	**–**		**24,927,907**	**26,159,387**

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 31 December 2014 and 31 December 2013, as management believes that such provision is not necessary.

Loans issued to key management are issued at preferential rates, as it is the case with loans issued to the Bank's employees (refer to Note 16). The terms offered to key management are not substantially different from those offered to other employees.

The customer accounts balances at the year end and transactions with related parties for 2014 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Bodi International**	**Golomt Financial Group**	**Golomt Securities LLC**	**Other**	**Total**
Contractual interest rate	**0%-8%**	**0%-11%**	**0%-4%**	**0%**	**0%-10.8%**	
Customer accounts						
Customer accounts as at 01 January 2014	787,781	1,811,576	-	344,335	3,513,538	6,457,230
Customer accounts received during the year	13,139,282	509,462,491	49,140,649	14,202,560	298,672,810	884,617,792
Customer accounts repaid during the year	(12,278,488)	(444,060,625)	(48,651,337)	(14,387,576)	(300,246,931)	(819,624,957)
Exchange difference	(98,780)	168,973	3,905	26,980	(47,797)	53,281
Salary current account	6,647					6,647
Customer accounts as at 31 December 2014	**1,556,442**	**67,382,415**	**493,217**	**186,299**	**1,891,620**	**71,509,993**

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

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Bodi International**	**Golomt Financial Group**	**Golomt Securities LLC**	**Other**	**Total**
Contractual interest rate	**0%-8%**	**0%-11%**	**N/A**	**0%**	**0%-10.8%**	
Customer accounts						
Customer accounts as at 01 January 2013	554,614	3,092,881	-	50,742	1,758,113	5,456,350
Customer accounts received during the year	7,902,558	95,800,385	-	15,723,113	131,337,852	250,763,908
Customer accounts repaid during the year	(7,765,209)	(97,269,638)	-	(15,423,368)	(129,711,394)	(250,169,609)
Exchange difference	95,818	187,948	-	(6,152)	128,966	406,580
Customer accounts as at 31 December 2013	**787,781**	**1,811,576**	**–**	**344,335**	**3,513,538**	**6,457,230**

39 Related Party Transactions (continued)

The income and expense items with related parties for the year ended 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	55,514	1,222,522	-		1,558,820	3,220,450
Interest expense	87,928	966,123	1,655,554	7,455	132,811	2,849,871
Fee and commission income	75,467	31,011	600	639	31,068	207,135

The income and expense items with related parties for the year ended 31 December 2013 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	57,750	-	-		1,856,876	2,010,709
Interest expense	15,329	8,731	-	5,459	22,677	111,272
Fee and commission income	3,812	17,232	-	62	50,894	92,236
General and administrative expenses	-	-	-	-	519,051	519,051

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

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Guarantee		
Bank guarantees as at 01 January	19,651,899	16,539,150
Guarantees issued / exchange revaluation	-	3,112,749
Guarantee closed	19,651,899	-
Bank guarantees as at 31 December 2014	**–**	**19,651,899**

Key Board of Directors and management compensation is presented below:

In thousands of Mongolian Tugriks	2014	2013
Salaries	1,036,008	975,678
Bonuses	604,820	140,163
Social security contributions	180,491	122,743
Termination benefit	8,400	-
TOTAL	**1,829,719**	**1,238,584**

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.

40 Share-Based payments

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

In thousands of Mongolian Tugriks	2014	2013
Expense arising from equity-settled		
Share-based option transactions	333,349	470,594

In thousands of Mongolian Tugriks	2014 Number of share options	2014 Weighted average exercise price	2013 Number of share options	2013 Weighted average exercise price
Outstanding at the beginning of the year	792,100	4,565	792,100	4,565
Granted during the year	-	-	-	-
Expired during the year	(338,950)	3,970	-	-
Exercised during the year	(167,900)	3,834	-	-
Outstanding at the end of the year	**285,250**	**5,701**	**792,100**	**4,565**

Share-based payments comprise 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 and share premium.

41 Events after the End of the Reporting Period

On 14 January 2015, Bank of Mongolia increased the policy rate from 12% to 13%.

On 30 January 2015 the bank repaid MNT 161.6 billion of the 4% mortgage funding to the Bank of Mongolia.

Management is not aware of other events that occurred after the end of the reporting period until 31 March 2015, which would have any impact on these financial statements.

Correspondent banks

No.	Country	Location	SWIFT and Telex code	Currency	Nostro accounts
1.	Australia	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED ANZ CENTRE MELBOURNE, LEVEL 9, 833 COLLINS STREET DOCKLANDS, VICTORIA, AUSTRALIA, 3008	ANZBAU3M	AUD	920660AUD00001
2.	Austria	RAIFFEISEN BANK INTERNATIONAL AG	RZBAATWW	EUR	1-55 076 335
3.	Canada	CANADIAN IMPERIAL BANK OF COMMERCE TORONTO M5G 2M8, CANADA	CIBCCATT	CAD	1818910
4.	China	THE AGRICULTURAL BANK OF CHINA INT.L DEPT. 5/F, JIN YU PLAZA ROAD, BEIJING 100036, CHINA	ABOCCNBJ	USD	8211000908
5.		THE AGRICULTURAL BANK OF CHINA (NEIMENGGU BRANCH) HUHEHAOTE, INNER MONGOLIA, CHINA	ABOCCNBJ050	USD CNY	05999914040000049 05999901040000053
6.		BAOSHANG CHINA INNER MONGOLIA, BRANCH BAOTOU	BTCBCNBJ Bank code: 313192000021	USD CNY	002105599800010 002105599800020
7.		BANK OF CHINA INNER MONGOLIA BRANCH ERLIAN SUB-BRANCH, CHINA	BKCHCNBJ880	USD CNY	155605293946 154005293944
8.		CHINA CONSTRUCTION BANK CORPORATION NEIMENGU BRANCH, CHINA	PCBCCNBJNME	USD CNY	NRA15014150500220100181 15001658408052502177
9.		INDUSTRIAL AND COMMERCIAL BANK OF CHINA INNER MONGOLIA BRANCH NO.105, XILIN NORTH ROAD HOHHOT, INNER MONGOLIA, P.R.CHINA	ICBKCNBJNMA	USD CNY	0610040629200061234 0610040609200054391
10.		BANK OF INNER MONGOLIA NO.33 TENGFEISOUTH ROAD, HOHHOT, INNER MONGOLIA. CHINA POSTCODE: 010010	HSSYCNBH	USD CNY	115914236000000184 115901236000000122
11.		CHINA CITIC BANK HUHEHAOTE BRANCH HUHEHAOTE, P.R.CHINA	CIBKCNBJ010 Bank Code: 302191027101	USD CNY	7271111486000000181 7271110186000000155
12.	Germany	COMMERZ BANK AG, FF/AM MAIN NEUE MAINZER STRASSE 32-36, 60261 FRANKFURT AM MAIN, GERMANY	COBADEFF 041/415 2530 CBD	USD EUR CHF GBP JPY	400 878 506 500 400 878 506 501 400 878 506 500 400 878 506 500 400 878 506 500
13.		DEUTSCHE BANK AG 60261, FRANKFURT AM MAIN	DEUTDEFF	EUR	100-9517673-0000
14.	Hong Kong	BANK OF CHINA (HONG KONG) LIMITED HONG KONG	BKCHHKHH	HKD CNY USD	012-875-60115674 012-875-60118495 012-875-60121220
15.	Japan	MIZUHO BANK LTD TOKYO JP	MHCBJPJT	JPY	6740010
16.		SUMITOMO MITSUI BANKING CORPORATION 1-2 YURAKUCHO 1-COME, CHIYODA-KU, TOKYO, JAPAN	SMBCJPJT	USD JPY	3623 4374
17		BANK OF TOKYO MITSUBISHI UFJ, Ltd. 191 NIHOMBASHI TOKYO 103-8684, JAPAN	BOTKJPJT	USD JPY	653-0455601 653-0432881
18	Kazakhstan	KAZKOMMERTSBANK Joint-Stock Company 135g, Gagarin St., Almaty, 050060, Republic of Kazakhstan	KZKOKZK	USD	KZ769260001000694001
19.	Korea	KOREA EXCHANGE BANK 181, 2-KA, 181, EULJIRO 2-GA, JUNG-GU, C.P.O. BOX 2924, SEOUL 100-793, KOREA	KOEXKRSE	USD KRW	963-THR-313-01-2 0963FRW001000054
20.		SHINHAN BANK, SEOUL P.O.BOX 2997 SEOUL 100-629, KOREA	SHBKKRSE	USD KRW	0102245USD01 0102245KRW01
21.		HANA BANK, SEOUL	HNBNKRSE	USD KRW	060-910001-25031 060-910001-06501
22.		KOOKMIN BANK, SEOUL 150-868 SEOUL, KOREA	CZNBKRSE	USD KRW	819-8-USD-0-15 819-8-KRW-0-17

23.	Russia	SBERBANK, RUSSIA BAIKALSKY HEAD OFFICE, 32 DEPUTATSKAYA ST, 664047 IRKUTSK, RUSSIA TELEX 231231 BIK: 042520607 K/S: 30101810900000000607	SABRRU66 231231 SBANK.RU	USD RUB	30111840518000000003 30111810618000000001
24.		JSC BANK FOR FOREIGN TRADE 43, VORONTSOVSKAYA STR., MOSCOW 109044, RUSSIA (Внешторг Банк) BIK: 044525187 K/S: 30101810700000000187	VTBRRUMM	USD RUB	30111810655550000126 30111840155550000104
25.		RUSSIAN AGRICULTURAL BANK 119034 MOSCOW, RUSSIAN FEDERATION /Россельхоз Банк/ BIK: 044525111 K/S: 30101810200000000111	RUAGRUMM	USD RUB	30111840300000000006 30111810200000000013
26		SBER BANK, RUSSIA MOSCOW HEAD OFFICE, 19 Vavilova St., 117997 Moscow, Russia BIK: 044525225 K/S: 30101810400000000225	SABR RUM 012	USD RUB	30111840100000000840 30111810800000000840
27.	Singapore	UNITED OVERSEAS BANK LIMITED 80 RAFFLES PLACE, #05-00 UOB PLAZA 1 SINGAPORE 048624	UOVBSGSG	SGD	301-399-069-5
28.		DBS BANK 12 Marina Boulevard DBS Asia Central @ Marina Bayv	DBSSSGSG	USD	0710-000182-01-5
29.	Taiwan	LAND BANK OF TAIWAN HEAD OFFICE 46, KUAN CHIEN ROAD, TAIPEI, TAIWAN, REPUBLIC OF CHINA	LBOTTWTP	USD	088-185-00002
30.	Turkey	YAPI ve KRED BANKASI A.	YAPITRIS	USD	95711515
31.	Poland	mBANK	BREXPLPW	PLN	IBAN: PL 52 114 000 000 000 114 851 001 001
32.	United Kingdom	BARCLAYS BANK PLC LONDON GB	BARCGB22 Sort Code: 20-32-53	GBP	43379779 IBAN: GB-33BARC20325343379779
33.	USA	STANDARD CHARTEREDN BANK NEW YORK, NY 10036, US	SCBLUS33	USD	3582-026934-001
34.		DEUTSCHE BANK TRUST COMPANY AMERICAS NEW YORK, NY 10004	BKTRUS33	USD	04453138
35.		MASHREQ BANK PSC	MSHQUS33	USD	70010461

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