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OUR COMMITMENT TO OUR CUSTOMERS

Since its establishment, Khan Bank has been committed to transparency, openness and fairness, which serve as the foundation to our success and which benefit society. All our activities are guided by these principles, and they remain our key commitment to our customers.

Khan Bank values and respects our customers. We adhere to internationally accepted policies on confidentiality and transparency.

KHAN BANK AT A GLANCE

Khan Bank, with 535 branches throughout Mongolia, is the largest retail bank in Mongolia at the end of 2014.

The Bank was established in 1991 as the Agricultural Cooperative Bank in connection with the dissolution of the mono State Bank of Mongolia. The Bank assumed most of the assets and businesses of the State Bank in rural Mongolia. Although the Bank was privately owned, its business remained heavily influenced by the Government, and in 1999 it was placed into receivership by the Bank of Mongolia. In 2000, under World Bank guidance, a restructuring plan was developed.

The Government assumed ownership and recapitalized the Bank, and an external management team, funded by the United States Agency for International Development, was brought in to implement the plan. In 2003 the Bank was successfully privatized through international tender. Sawada Holdings Co Ltd, the Bank's majority shareholder, acquired 100% of the shares and subsequently sold 40% of the shares to Tavan Bogd Trade Ltd. The International Finance Corporation became a shareholder in 2004.

In 2006 the Bank's name was officially changed to Khan Bank LLC. Today, the Bank operates throughout all of Mongolia, with 98 branches in Ulaanbaatar and 437 in rural Mongolia, with an office in every aimag capital, soum center, and border point. Through this extensive network, the Bank provides comprehensive banking services to individuals, small and medium enterprises (SMEs) and corporate customers.

The Bank is a major provider of payment services including salaries, pension and social welfare payments, and remittances. Card services are provided to over 1.8 million customers. Continued investment in technology has resulted in access to online banking at all branches, an extensive ATM network covering Ulaanbaatar, aimag capital and major soum centers, as well as nationwide access to Internet, Mobile and Smart Phone Banking. In addition to a full range of loan and deposit products, the Bank provides foreign exchange, trade finance, cash management and international payment services to its commercial customers: SMEs, corporate, and institutional.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

HIDEO SAWADA

Chairman, Board of
Directors



I am pleased to present Khan Bank's 2014 annual report. Thanks to our customers' continued support and the hard work and dedication of the Bank's loyal staff, Khan Bank has achieved a fifth consecutive year of growth both in terms of assets and profits in 2014, in spite of a challenging business environment.

Faced with several economic challenges, especially low commodity prices in the global markets, Mongolia's economic growth slowed down significantly in 2014 compared to the high double digit growth of the previous three years. The Bank was required to manage the business carefully with strong risk management and liquidity control.

I believe Mongolia's policy makers and business leaders continue to take steps to realize the tremendous potentials of Mongolia's economy.

Khan Bank, as the bank that serves the largest number of customers in Mongolia with the most diversified portfolio, will continue to strive to provide solid and reliable financial services to our customers and to contribute to the development of Mongolia.

I sincerely appreciate our valued customers' continuous support and our respected partners' kind cooperation.



HIDEO SAWADA

Chairman, Board of Directors

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



NORHIKO KATO
Chief Executive Officer

In 2014, the GDP growth of Mongolia slowed down to 7.8% from the double digits growth seen in the previous three years. The economy suffered from low commodity prices, the Chinese economy's slower growth, decline in foreign direct investment, the depreciation of the currency (MNT), high inflation, and a decrease in foreign reserves. The Central Bank of Mongolia (BOM) started tightening monetary policy by unwinding policy credit programs and then increasing the policy interest rate from 10.5% to 12.0% in July 2014 (and to 13.0% in January 2015).

In this difficult business environment, Khan Bank increased its loan portfolio 22.0% to MNT 3.0 trillion while Mongolia's bank system's loan growth was 17.0%. The bank's retail loans increased 28.8%, and business loans increased 11.0%. Total assets reached MNT 5.1 trillion, a 6.6% increase from 2013.

MNT's market liquidity became tight, and the Bank's total MNT deposits decreased 7% from 2013. However, the Bank successfully raised USD 161 million in total from international financial institutions and, with the newly introduced long-term currency swaps with BOM, the Bank was able to maintain enough MNT liquidity to meet our customers' financial needs throughout the year.

Maintaining asset quality was a challenge for the banking sector. Non-performing loans (NPL) were on an increasing trend. Our NPL/Total Loans ratio was in the range of 2.3% to 2.7%, and was 2.5% at the end of the year, versus 5% for Mongolian bank system overall. Our well-diversified loan portfolio contributed to keeping our overall loan asset quality relatively stable. We increased loan loss provisions (LLP) by MNT 24 billion in 2014. The LLP/Total Loans ratio was 2.0%, and LLP to NPL ratio was 82.4%.

Net interest income increased 21%, and service fee income increased 24% with the strong growth of electronic banking transaction volumes. Personnel expenses increased 16% from the previous year and

administrative expenses increased 30% with the increase of depreciation expense. As a result, net income after tax was MNT 108.0 billion, a 12% increase from the previous year. Capital adequacy ratio was 17.2%, and Tier 1 capital ratio was 11.1%.

Besides these financial achievements, Khan Bank completed several strategic steps in 2014. The Bank completed IT system infrastructure projects after more than two years of work, and strengthened its bank systems operations and business continuity. The Bank also successfully obtained the ISO/IEC27001:2013 standard, a globally acknowledged certificate of Information Security Management System, for the first time among Mongolian banks, after 18 months of work on a wide range of information security requirements. Those achievements, made with substantial investment of time and resources, will form a strong base for the Bank's further growth in the coming years.

In 2014, the Bank added six offices to its branch network to reach a total of 535 branch offices all across the country. Together with the its electronic banking services, with the largest market share in Mongolia in Mobile Banking, Internet Banking, ATMs and POS terminals, Khan Bank continues to provide our customers with the most convenient banking services.

The Bank continued its contribution to Mongolia's social development by supporting many programs in health, education, the environment and culture through the Khan Bank Foundation. The Khan Bank Foundation supported the National Campaign against Cancer for the fourth consecutive year in 2014. The medical team of the National Cancer Center visited nine aimags to diagnose and treat cancer, and Khan Bank's employees volunteered in promoting awareness of cancer and good health practices. The Bank also participated in initiatives to introduce sustainable and environmental financing in Mongolia.

Under the current challenging economic environment of Mongolia, Khan Bank continues making investments for the future. With strong corporate governance and transparency, the Bank is committed to providing the best financial services to our customers and contributing to the development of Mongolia.

I would like to thank all Khan Bank staff for their hard work and dedication, as well as our valued customers and partners for their trust and support. We all look forward to serving you more in the years ahead.



Norihiko Kato

Chief Executive Officer

HIGHLIGHTS OF 2014

- Implementation of a Consumer Loan Campaign, E-Banking Campaign and Bancassurance Campaign throughout all of Khan Bank's branches and sub-branches in 2014 benefiting the Bank's customers with improved and time saving products and services.
- Continued investment in the future with 2014 capital expenditures totaling MNT 29 billion. This included MNT 11 billion in the Retail Bank including renovation of 19 urban and rural branches to improve facilities and services to customers. Additionally, MNT 11 billion was invested in technology for systems and computers.
- Introduction of EMV chip technology into the Bank's International VISA cards. The VISA EMV chip card is based on advanced technology to safeguard cardholder data and the security of payments by customers.
- Introduction and implementation of an Information Security Management System. The Bank received ISO/IEC27001:2013 international standard certification, the first of its kind in Mongolia.
- International Certification from US-based Uptime Institute for the solution, design, construction and installation of its Primary Data Center. This is the first and only data center in Mongolia to date to receive the Uptime certification.
- USD 160.4 million in new long term funding from international financial institutions. This included USD 130.4 million in senior debt to support loan growth and USD 30.0 million subordinated debt to increase Tier 2 capital.
- Continued commitment to and investment in corporate social responsibility in the banking sector. The Khan Bank Foundation spent more than MNT 350 million to implement around 20 projects and programs in 2014.

KHAN BANK AWARDS

- In 2014 Euromoney magazine named Khan Bank as the Best Bank in Mongolia. Euromoney cited Khan Bank for "its solid and strong financial performance, continued efforts in implementing large scale projects, bringing innovative banking products and services - such as the bancassurance, smart phone banking, and the latest transactional technology contactless card - to the Mongolian market, enhancing access and availability of E-Banking services, as well as commitment to transparency, openness and fairness, which serves as the foundation to Khan Bank's success."
- The European Bank for Reconstruction and Development, in the framework of its Trade Facilitation Program, selects the Most Active Issuing Bank on an annual basis, and Khan Bank was awarded the prestigious title for Mongolia due to its outstanding performance in 2014.
- Khan Bank was ranked third in the TOP-100 Entrepreneurs for 2014 awarded by the Government of Mongolia and Mongolian National Chamber of Commerce and Industry (MNCCI).
- Within the framework of Entrepreneur - 2014 organized by MNCCI to acknowledge leading entities and businesses that made considerable contributions to the social and economic development of Mongolia, Khan Bank was named the Best Corporate Social Responsibility Implementer.

CORPORATE GOVERNANCE

Khan Bank is committed to the highest standards of corporate governance, business integrity and professionalism in all its activities. The Bank's corporate governance framework ensures the strategic guidance of the company, the effective monitoring of management by the Board, and the Board's accountability to the Bank and the shareholders. The Bank has established substantive corporate governance practices to enable the Bank to build on its position as a leading bank in Mongolia for future growth and continually improving its governance structures and processes. The Bank seeks to ensure quality decision-making, encourage effective succession planning for senior management and enhances long-term prosperity.

SHAREHOLDERS

	Ownership %
Sawada Holdings Co Ltd (Tokyo, Japan)	41.30%
H.S. International (Asia) Ltd (Hong Kong)	13.10%
Tavan Bogd Trade Co Ltd (Ulaanbaatar, Mongolia)	22.96%
D. Hulan (Ulaanbaatar, Mongolia)	13.32%
International Finance Corporation	9.32%
	100.00%

Sawada Holdings Co Ltd (SHD), Tokyo, Japan is a publicly listed, financial holding company. SHD, which was founded in 1958, is engaged in securities trading and brokerage, banking (including Khan Bank), real estate, casualty insurance, venture capital, and other investment and financial services through its group companies. www.sawada-holdings.co.jp

SHD has been the majority shareholder of Khan Bank since March 2003, when it acquired 100% of Khan Bank through privatization of the Bank via an international tender. In July 2003 SHD sold 40% of its shares to Tavan Bogd Trade Co Ltd (see below). In 2008 SHD transferred a portion of its shares to its wholly owned Hong Kong subsidiary, H.S. International (Asia) Limited. Directly and indirectly through H.S. International, SHD owns 54.40% of Khan Bank. Hideo Sawada, Khan Bank's Chairman, owned 25.95% of SHD as of 31 March 2015.

Tavan Bogd Trade Co Ltd (TBT) is the flagship company in the Tavan Bogd group of companies, founded 1995 and headquartered in Ulaanbaatar, TBT and its subsidiaries and affiliates are engaged in trade and services; manufacturing; tourism and hospitality; mining equipment supply; and banking. Well known TBT businesses include Gobi Cashmere, Ulaanbaatar Flour, Kempinski Khan Palace Hotel, Toyota, Volkswagen, KFC/Pizza Hut, Toto, Bridgestone and Xerox. TBT has ranked in the Mongolian Chamber of Commerce's "Top 150 Enterprises" for the past 13 years. www.tavanbogd.com

TBT is privately owned. Ts. Baatarsaikhan, a member of the Bank's board, is the majority shareholder. TBT has been a shareholder of Khan Bank since July 2003.

D. Hulan is a founder, shareholder and Executive Vice President of the Tavan Bogd group. A Mongolian citizen, she has been a member of the Bank's Board of Directors since 2003, and a shareholder of Khan Bank since 2010.

International Finance Corporation (IFC), a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines its policies. IFC operates in more than 100 developing countries including Mongolia. www.ifc.org

IFC has been a shareholder of Khan Bank since 2004. The IFC also provides trade facilities and loans to Khan Bank including senior and subordinated term debt, as well as technical assistance.

BOARD OF DIRECTORS

Khan Bank's Board of Directors (BoD) has a wealth of experience in financial services blending local expertise and understanding with knowledge and experience in international markets. The Board of Khan Bank currently consists of seven members who are elected on an annual basis by Khan Bank's shareholders:

- Hideo Sawada, President and CEO of Sawada Holdings Co Ltd, Tokyo Japan. Chairman of the Board of Directors since 2003. Japanese citizenship.
- Yoshiaki Mishima, Director of Sawada Holdings Co Ltd, Tokyo Japan. Member of the Board since 2003. Japanese citizenship.
- Ts. Baatarsaikhan, President of Tavan Bogd Group. Member of the Board since 2009. Mongolian citizenship.
- D. Hulan, Executive Vice President of Tavan Bogd Group. Member of the Board since 2003. Mongolian citizenship.
- Jemal-ud-din Kassum, Board of Indonesia Infrastructure Finance and Randgold Resources, and is resident of Washington DC, USA. Member of the Board since 2009, nominated by the IFC. Tanzanian citizenship.
- Robert Dressen, Senior Banking & Finance Advisor, Development Alternatives Inc, Bethesda Maryland, USA. Member of the Board since 2011. He is an independent board member. USA citizenship.
- D. Molomjamts, Deputy Chairman of the Board of the International Investment Bank, Moscow, Russia. Member of the Board since 2011, elected as an independent board member. Mongolian citizenship.

The Board of Directors meets monthly which includes two in-person meetings in Ulaanbaatar at the Bank and ten via telephone.

To enhance the overall effectiveness of the Board by ensuring focus, oversight and monitoring of sensitive areas, the Board has created three committees:

AUDIT COMMITTEE

The Audit Committee, chaired by Ms. Hulan, oversees accounting and internal audit matters and performs related duties as described in its charter. The Audit Committee reviews the Bank's financial position and makes recommendations on a myriad of financial matters including assessing the integrity and effectiveness of accounting methods, compliance and other control systems. The Audit Committee serves to ensure that all processes within Khan Bank are undertaken with the greatest consideration for probity, accountability, and transparency.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee, chaired by Mr. Dressen, reviews overall potential risk exposure and makes appropriate recommendations upon the measurement, quantification, limitation and amelioration of diverse elements of risk encountered in the operations and business of the Bank.

GOVERNANCE AND REMUNERATION COMMITTEE

The Governance and Remuneration Committee, chaired by Mr. Kassum, assists the Board in fulfilling its oversight responsibilities related to remuneration matters and strengthening corporate and governance principles of the Bank. The corporate governance of the Bank is periodically updated in line with the best practices of good governance and the requirements of the BOM. The Committee is also responsible for reviewing and recommending to the Board of Directors the appointment of new directors and senior management as well as all aspects of their remuneration and compensation packages.



HIDEO SAWADA
Chairman of the Board of Directors
Chief Executive Officer
Sawada Holdings Co.Ltd



TS. BAATARSAIKHAN
President
Tavan Bogd Group



YOSHIAKI MISHIMA
Director
Sawada Holdings Co. Ltd



D. HULAN
Executive Vice President
Tavan Bogd Group



JEMAL-UD-DIN KASSUM
Board of Indonesia Infrastructure
Finance and Randgold Resources



ROBERT DRESSEN
Senior Vice President Project
Management DAI



D.MOLOMJAMTS
Deputy Chairman of the
Board of Directors
International Investment Bank



NORIIHIKO KATO
Chief Executive Officer

EXECUTIVE MANAGEMENT



R. MUNKHTUYA
First Deputy CEO



T. JAVKHLAN
Deputy CEO, Retail



N. OYUNKHAND
Deputy CEO, Chief Credit Officer



P. BATBAYAR
Director of Wholesale Banking



G. MUNKHBAYAR
Director of Finance



D. ENKHBAATAR
Director of Internal Audit



ARVIND JOSHI
Director of Information
Technology



D.TSOLMON
Director of Legal and HR



D.ENKHBAATAR
Director of Retail Bank, East



D.ARIUNBAT
Director of Retail Bank, UB



CH.BATSAIKHAN
Director of Retail Bank,
West



U.NARANTSETSEG
Director of Business
Development



J.GANBAT
Director of Branch
Management



B.ERDENEDELGER
Director of Treasury and
Investment Banking



M.CHANTSALMAA
Corporate Secretary



N.TUVSHINJARGAL
Director of Operations

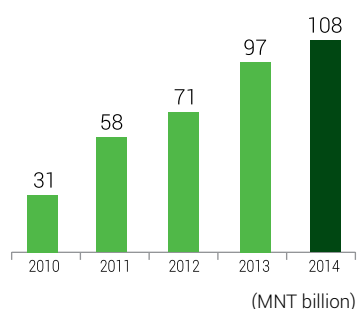
FINANCIAL HIGHLIGHTS

In an extraordinarily challenging year which saw a significant drop in foreign direct investment, an increase in the foreign trade deficit, and high inflation and 12% MNT depreciation, Khan Bank performed well and maintained its market leadership position with the following achievements.

PROFITABILITY

Net profit after tax was MNT 108.0 billion, an increase of MNT 11.3 billion or 12% from 2013. Return on assets (ROA) was 2.3%. Return on equity (ROE) was 28.3%.

Net Profit After Tax

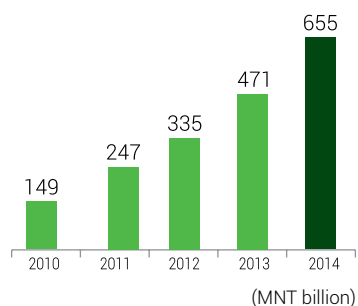


CAPITAL

Total capital increased MNT 184 billion or 39% to MNT 655 billion. This increase came from the growth of retained earnings and USD 30 million in new, Tier 2 subordinated debt from international financial institutions.

At year end 2014, Khan Bank's Tier 1 capital ratio was 11.1% versus regulatory minimum of 9.0%. The total capital ratio (Tier1 and Tier2) was 17.2% versus regulatory minimum of 14.0%.

Total Capital

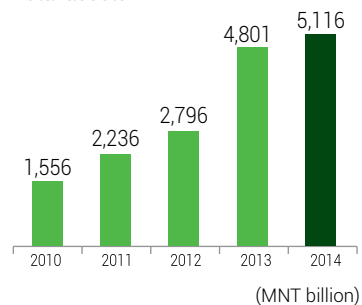


TOTAL ASSETS AND LIQUIDITY

Total assets increased MNT 315 billion or 7% to MNT 5 trillion, representing 24% of total banking sector assets.

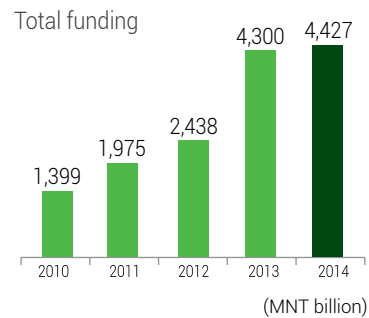
The liquidity ratio was 43.5% versus the regulatory minimum of 25%.

Total assets



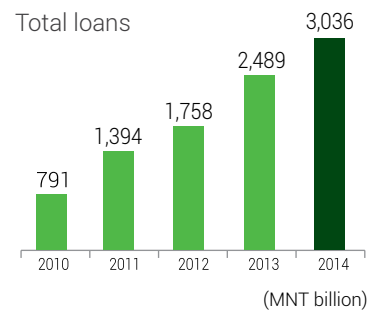
FUNDING

Total deposits and other funds increased MNT 127 billion or 3% to MNT 4.4 trillion. This includes deposits from customers (62%), interbank deposits (14%), and borrowings from international financial institutions (24%).

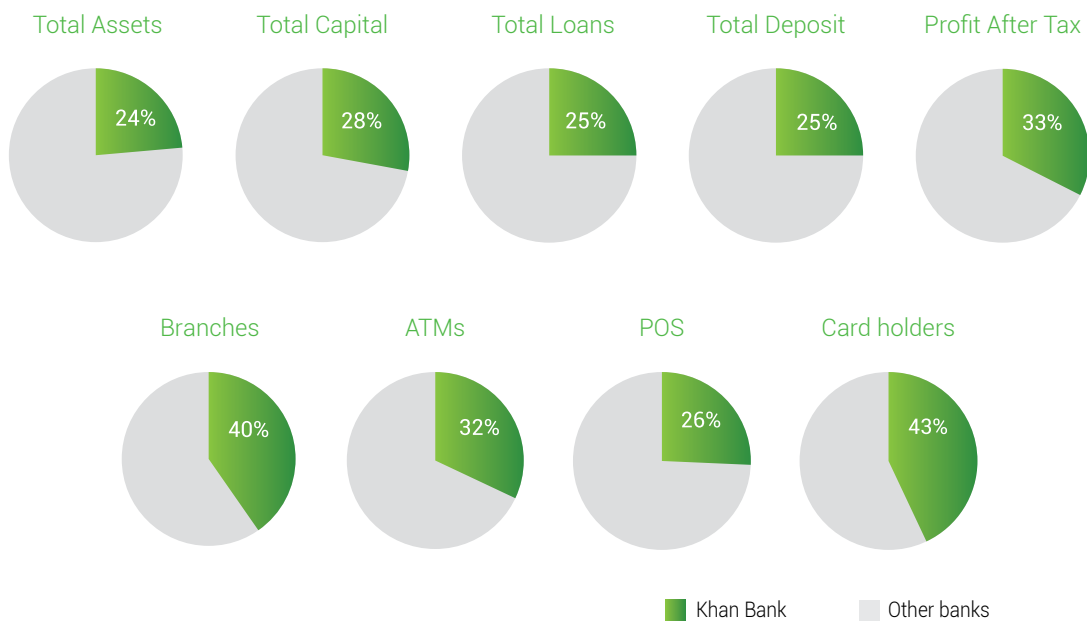


LOANS

Total loans grew 22%, or MNT 548 billion, to MNT 3.0 trillion. Included in total loans are MNT 350 billion in special loan programs funded by the government of Mongolia and the Bank of Mongolia.



KHAN BANK MARKET SHARE



RETAIL BANKING



Khan Bank, with its nationwide branch accessibility, delivers all types of banking and financial services including, but not limited to, credit and savings products tailored to businesses and individuals through its network of 535 branches and sub-branches in three regions, Ulaanbaatar, West and East.

BRANCH NETWORK

The network includes specialized sub-branches, including Consumer Loan Centers, Business Loan Centers, Mortgage Loan Centers, and Settlement Centers.

In 2014, the Bank opened three Express Banking Centers based on the East Cross Road, Baruun khuree and Unur sub-branches located in the high density areas of Ulaanbaatar. Additionally, two new sub-branches (Nomin United and Sun Town) were opened, thus extending financial service access to new communities.

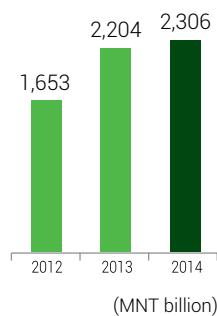
As part of its continued investment in the branch network to improve service level and quality, 2014 capital expenditures totaled MNT 11.6 billion. This included MNT 2.7 billion for new office buildings for 19 sub-branches in Arkhangai, Bayan-Ulgii, Khuvsgul, Bayankhongor, Bulgan, Gobi-Altai, Gobisumber, Dornogobi, Dornod, Dundgobi, Zavkhan, Sukhbaatar, Selenge, Uvs, Nalaikh, Khovd and Khentii aimags.

LOANS AND DEPOSITS

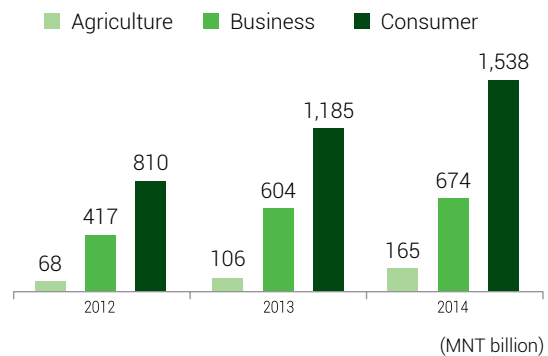
In 2014, Retail Bank's loans grew 25.4%, or MNT 481.6 billion, to MNT 2.4 trillion. Consumer loans accounted for most of the growth with an increase of MNT 353.3 billion; business loans grew MNT 69.5 billion. As of year-end 2014, the loan portfolio was composed of consumer loans (65%), business loans (28%), and agriculture and herder's loans (7%).

Retail Bank's deposits increased 4.6% or MNT 102.2 billion, reaching MNT 2.3 trillion.

Retail Deposits



Retail Loans



SOCIAL SERVICE PAYMENTS

The Bank demonstrated its long-standing collaboration in delivering public services to the Mongolian people including the disbursement of pensions, social welfare payment and children's money without fees.

Over 40% of Mongolian pensioners more than 142,000 receive monthly pension payments through Khan Bank. Over half of all students more than 70,000 receive monthly stipends through the Bank.

RETAIL BANKING

ATMs

The Bank installed 15 additional outdoor ATMs in Ulaanbaatar and rural areas. This brings the total number of ATMs nationwide to 372 of which 220 are in Ulaanbaatar and 152 in rural areas. With the new ATMs, 64% of the ATM network is available 24 hours a day, seven days a week.

This includes new special purpose ATMs introduced in 2014: 5 Drive-through ATMs, 1 Mobile ATM, 2 deposit-taking ATMs and 3 Express Banking Centers.

E-BANKING

In 2014, the Retail Bank focused on promoting E-Banking products and services to improve the regular usage of these products by customers, enhancing convenience, speed and simplicity of banking services.

In the reporting year, we organized numerous promotional activities targeted to our customers including a three month nationwide E-Banking Campaign to publicize and increase familiarity with electronic banking services based on advanced technology, and to provide customers with easy access to banking services without having to visit a branch.

The campaign has made significant progress towards its goal, and as a result of this planned activity, the number of transactions and settlements made via E-Banking has increased significantly. During the campaign period, bi-weekly events were held to reward the most active users of E-Banking under each product category, and to collect valuable feedback and comments from customers.



MORTGAGE PROGRAM

Khan Bank is committed to the implementation of the Mongolian economic, social and development policies, and maintains steadfast cooperation with public organizations to deliver substantial projects and programs dedicated to the people. For the second consecutive year, the Bank was involved in the 8 % mortgage program implemented by the Government of Mongolia, BOM, and the Mongolian Mortgage Corporation (MIK).

The Bank receives mortgage loan applications through its branches and disburses the loans after credit analysis and approval. Within the framework of this program, Khan Bank disbursed MNT 154.0 billion mortgage loans to 2,820 qualifying borrowers in 2014.

In 2014, the Bank sold MNT 76.8 billion of these loans in two tranches to MIK. Khan Bank sold the senior RMBS to the BOM and in return, received funding for further disbursement of mortgages ensuring the continues implementation of this Government sub-program.

BANCASSURANCE

As a result of Khan Bank's successful introduction of the Bancassurance service to the banking sector for the first time in Mongolia, six types of insurance products are now available to customers at all branches of Khan Bank. Instead of visiting an insurance company, customers are able to purchase insurance products from Khan Bank when they visit us for financial services, saving both time and effort.

In order to promote importance of insurance, Khan Bank organized the Bancassurance Campaign for five months through its nationwide branch network, and rewarded 409 lucky draw winners from the insurance buyers.

SMALL AND MEDIUM ENTERPRISE BANKING

Sustainable and flexible support to SMEs is an important investment in the future development of the country. In this respect, Khan Bank has carried out a number of activities aimed at SMEs.

Through its SME Centers, Khan Bank provides comprehensive banking and financial services to SME customers tailored to their needs. In addition to delivering banking services in a comfortable environment, SME Centers provide consultancy and assistance to customers for expanding their business, raising investment and managing their finance, in order to strengthen our successful partnership.

In this regard, we implement multiple projects to benefit SMEs while offering flexible loan conditions, as acquiring a loan is the primary tool for funding business expansion. Moreover, the Bank continues its involvement in and support for special purpose project loans which are funded by the Government and international development agencies and have a positive impact on creating economic diversification in a sustainable manner, benefiting micro and small business entrepreneurs, new employment and other objectives.

In 2014, Khan Bank disbursed 20 types of project loans amounting to MNT 73.3 billion to 3,473 individuals and companies. In all cases, while funding is provided by the project, Khan Bank accepts 100% of the credit risk. Active programs in 2014 include the following:

EXPORT PROMOTION AND IMPORT SUBSTITUTION PROJECT LOANS

Within the framework of the Export Promotion Program approved by the Government's Resolution no. 239 of 2013, loans to export promotion and import substitution projects over MNT 2.0 billion was disbursed in 2014.

Under the Sub-lending Agreement concluded between Khan Bank and the Development Bank of Mongolia on 24 July 2014, the Bank, via all of its branches, receives and makes credit analysis on the projects requiring more than MNT 2 billion that meet the requirements set forth in the Regulation for Financing, Monitoring and Reporting Export Promotion and Import Substitution Projects approved by Government's Resolution No. 212 in 2014. Under the program, loans worth MNT 8 billion were analyzed and disbursed to three borrowers in 2014.



SME DEVELOPMENT FUND LOAN

Khan Bank expanded its collaboration with SME Development Fund (Fund), and established a three party loan agreement with the Fund and the Development Bank of Mongolia for additional funds. The bank provided low-interest and long-term loans financed by the Fund to small and medium business entrepreneurs and individuals in nine districts of Ulaanbaatar and 21 aimags under the Export Promotion and Import Substitution Program for projects of less than MNT 2 billion.

PRICE STABILIZATION PROGRAM

Within the framework of executing the Memorandum of Understanding on the Joint Implementation of Medium-term Program to Stabilize Prices of Key Commodities and Products signed by the Government of Mongolia and the Central Bank of Mongolia, Khan Bank has been carrying out the following sub-programs together with the Central Bank of Mongolia:

- SIFS – sub-program for stabilizing fuel retail prices;
- Sub-program for stabilizing stable food prices;
 - Reserve meat preparation and meat price stabilization;
 - Flour price stabilization;
 - Improvement of food cellars and warehouses, and development of intensified farming;
- Sub-program for stabilizing domestic production of main construction materials;
- Sub-program for ensuring coal supply, preparing for winter in fuel and energy sector, and stabilizing energy prices;

Khan Bank, through its branches, disburses the Medium and Short-term Program for Price Stabilization loans implemented by the Government.

SMALL AND MEDIUM ENTERPRISE BANKING

SOFT WORKING CAPITAL LOAN TO PROMOTE CASHMERE PRODUCTION AND INCREASE EXPORT

Under the Regulation for Implementing Cashmere Production and Export Promotion Measures, the Government of Mongolia disbursed soft working capital loans through Khan Bank to cashmere producers for the purpose of supporting cashmere production and raw material processing, increasing export and expanding workplaces.

TWO-STEP-LOAN PROJECT FOR SME DEVELOPMENT AND ENVIRONMENTAL PROTECTION (JICA)

The purpose of this project, funded by the Japanese Government with concessionary terms, is to support economic diversification, create new jobs and protect the environment by issuing long-term, low-cost funding to support Mongolian economic growth, SME promotion and poverty reduction. The first step was started in September 2006. The second step commenced in March 2011.

Khan Bank participated as a sub-lender in this program and disbursed USD 3.1 million loans to 150 legal entities, out of a total MNT 40 billion which was approved.

Khan Bank maintains its position of being the most accessible bank which has financed the largest number of projects, by disbursing MNT 5.17 billion in loans to 18 borrowers in 2014 under the Two-Step-Loan Project for SME Development and Environmental Protection.

CREDIT GUARANTEE FUND

Upon the cooperation agreement between Khan Bank and the Credit Guarantee Fund (CGF) established on June 4, 2013, the Bank is jointly implementing the credit guarantee program provided by CGF.

CGF offers credit guarantee to SMEs that are applying for MNT loan products but unable to satisfy collateral requirement specified in the loan policy, and terms and conditions of product. Implementation of this program supports SMEs that are lacking sound collateral, and reduces credit risks of the banks. As of December 31, 2014, guarantees valued at MNT 3 billion were issued under loans totaling MNT 7.1 billion to 42 borrowers of the Bank.

BUSINESS INCUBATOR

In addition to delivering comprehensive banking services to SME customers through its specialized business centers, Khan Bank established the Business Incubator Center (BIC) in 2006 under the mission of strengthening the business management skills of SMEs, providing them with vital information and facilitating opportunities for joint development. Among its multiple activities, BIC organizes free short-term trainings and individual counseling sessions within the scope of business management and other topics.

In 2014, BIC organized ten sessions of classroom and capacity building training targeted to SMEs and individuals, with a total of 344 people participating. The training sessions combined theory and practice and were conducted by top Mongolian professors and experts. As in previous years, the Business Incubator Center held one-time and tiered business training sessions under specific topics for providing business entrepreneurs with financial education and showing support in business management.

Furthermore, during the reporting period and in cooperation with the expert speakers from the Institute of Finance and Economics, the National University of Mongolia and the Management Academy, a 94-hour training course was delivered to 93 individuals and company customers. The sessions of the year addressed interesting topics which had not been raised in the past, including Trends in Personal Development and Business Re-engineering.

In addition to this, situational activities were undertaken such as the Publication of the Business Partnership E-Newsletter and a factory tour for business consultants and others. Business networking events included Manufacturer Partnership-2014, Construction Partnership-2014, and a Lunar New Year-Expo-2014.

Lastly, BIC organized more than 100 internal training sessions on 26 topics for 3,607 employees of the bank.



WHOLESALE BANKING

The Wholesale Banking Department provides full banking services to Khan Bank's corporate and institutional customers. At 2014 year end, the department accounted for 19.5% of the Bank's total loans outstanding and 46.1% of the total commercial loans outstanding.

NEW STRUCTURE

In 2014, Wholesale Banking completed the analysis of the larger businesses in Mongolia and based on its findings, has restructured the department to better meet the needs of its corporate and institutional customers. This has included categorizing customers by industry sectors such as construction, trade, mining, agriculture, food production, fuel trading, conglomerates and holding companies. Institutional customers include international organizations, embassies and diplomatic representative offices and larger non-governmental organizations. This enables industry specialization among department professionals as well as developing more customized products and services.

During the year, the department also focused its attention on strengthening employee professional skills and practical experience. This included comprehensive international trainings held here at the Bank.

GOVERNMENT PROGRAMS AND PROJECTS

Wholesale Banking is actively cooperating with the Government of Mongolia and the BOM in several government-led initiatives. This includes the Price Stabilization Program for key economic sectors and support for domestic manufacturers to broaden exports and increase domestic manufacturing for import substitution.



**TRADE FINANCE
AND EXPANSION OF
COOPERATION WITH
INTERNATIONAL
BANKS**

As the Bank's cooperation with international financial organizations grows and the Bank's correspondent banking relationships expand, the Wholesale Banking is able to provide customers with a broad channel of trade finance facilities. The Bank's customers benefit from customized financing tailored to their business with flexible terms and low cost and competitive pricing.

Our focus on trade finance also supports the Mongolian Government's directive for development of exports and import substitution.

**CONSTRUCTION AND
MANUFACTURING**

For the department, 2014 was a year of successful financing of larger development projects in Mongolia. This included a large food production project, several residential construction projects for a total of 4,100 households, a gold mining project and two large projects in the agricultural sector.

In the future, in the uncertain economic situation, we will seek to further bolster our clients' trust in our bank by determining the primary needs of our customers and offer them the best suitable products, delivered by our professional employees following the transparent governance principles. We aim to lead the market by providing new and advanced products and services first.

BUSINESS DEVELOPMENT

During the year of 2014, Khan Bank introduced various advanced technology based products and services enabling customers to receive banking services easily.

VISA EMV CHIP CARD

Khan Bank aims to improve its current services and introduce up-to-date financial products tailored to its customer's needs and demands. In the scope of this goal, the bank introduced the EMV chip technology into International VISA cards.

This VISA EMV chip technology features payment cards with embedded microprocessor chips that store and highly protect cardholder's data. Compared to the currently used magnetic stripe cards, EMV chip card supports enhanced cardholder verification methods, secures online payment transactions and protects against risks of card fraud.

PLATINUM CARD

Khan Bank introduced the Khan Platinum card which has become a guarantee of internationally accepted reputation. The Platinum card provides customers with various privileges of receiving luxury services with special discounted prices, discounted services at VIP lounges of international airports through the Priority pass, e-banking services from any location, discounted services from leading hospitals in South Korea and Singapore and a complete travel insurance package.

Thus, Khan Bank cardholders are able to receive privileged payment services ensured by international information security standards from every corner of the world.

SAFE DEPOSIT BOX SERVICE

For the first time in Mongolia, Khan Bank offers a highly-protected Safe Deposit Box Service secured by customers' fingerprints, passwords and keys in a comfortable environment.

The safe deposit box service is the most guaranteed way to protect a customer's documents, valuables, currency and irreplaceable valuables from theft, fire, flood and any other catastrophe.

GOLD TRADE

Khan Bank is offering services of purchasing and selling gold from individuals and entities by completely competitive prices and a highly secured and comfortable environment.

The bank provides customers with express and friendly services in highly secured vacuum room with special weighing scales guaranteed by the Agency of Standardization and Methodology.

MY CARD

Khan Bank introduced the My Card debit card enabling customers to make their own design and decorate cards with their favorite photos. Customers are able to have a unique card dedicated for them and decorated with photos of their family members or loved ones.

TREASURY AND INVESTMENT BANKING

LIQUIDITY

Khan Bank successfully complied with the BOM minimum required reserve of 12% and liquidity ratio of 25% throughout the financial year. As of year end 2014, the Bank's reserves stood at 13.9% and liquidity ratio at 43.5%.

MONEY MARKETS

Khan Bank manages its excess liquidity through placement in BOM bills, government securities, and deposits in both the local and international interbank markets for the purpose of executing customers settlements on demand, maintaining liquidity at a prudential level and investing in low-risk, high liquidity, interest earning assets. The Bank maintains a leading position in the BOM and Government security markets with a market share of 28.4% in BOM bills and 31% in Government securities transactions at the end of 2014. At the end of this reporting period, Khan Bank earned a total of MNT 71.7 billion profit which is an increase of 23.9% from last year.

FOREX ACTIVITIES

Khan Bank accounts for approximately 30% of the local foreign exchange (FX) market by delivering quality and timely FX services to its customer through its network. The 16.3% increase in total FX turnover is mostly attributed to the increase in the number of customers who engage in FX transactions and successful, active long and short term swap transactions with the Central Bank of Mongolia in 2014. Khan Bank actively conducted prior agreements with customers to support the development of the local derivative market under the framework of the Price Stabilization Program which was implemented jointly by the BOM and the Government of Mongolia.

CORRESPONDENT BANKING

Khan Bank maintains correspondent banking relationships with 25 banks through accounts denominated in 13 different currencies. Additionally, the Bank has credit lines totaling USD 300 million from over 70 international banks further strengthening cooperation in foreign exchange and trade finance, and thereby assisting in transferring liquidity from the international interbank market.

In 2014, Khan Bank, in its efforts to increase the spectrum of international remittance, managed to bring cooperation with its correspondent banks to new and more favorable terms and consequently was able to maintain its competitive fees and charges associated with international remittance. Moreover, with a view to augment foreign remittance business, the use of information technology capacity was further enhanced, and branches and sub-branches specializing in international remittance were established. As a result of these efforts, income from foreign remittances was well maintained despite the relative decrease in foreign trade. Collection of foreign visa fees and issuance of checks operations are still actively engaged in.

INTERNATIONAL REMITTANCES

Payment instruments based on the secure international interbank telecommunication network, SWIFT, are being adopted.

Aggressive international remittance promoting campaigns were carried out based on improved terms and conditions with correspondent banks, improved information technological capacity, and branches and sub-branches specializing in foreign remittance. As a result, the number of international payments increased by 12% placing the Bank in a leading position in Mongolia.

TREASURY AND INVESTMENT BANKING

TRADE FINANCE

Khan Bank successfully reached its targeted growth in its trade finance portfolio through on-lending funds attracted on flexible terms from the international market to its customers with strict alignment with their cash flow cycle and effective mitigation of risks associated with foreign trade.

The Bank provides its customers with comprehensive trade services. This includes refinancing documentary credits to assist customers in considerably lowering their cost of imported goods while maintaining reasonable control of foreign trade risks. Additionally, the Bank provides guarantees, letters of credit, standby LC's and counters guarantees to its customers in various strategic industries such as mining, construction, manufacturing projects and wholesale operators by assisting them to cooperate with large international companies with view to mitigate risks associated with foreign trade.

In alignment with the Mongolian Government's new initiative to promote export and production of goods that replace imported goods, export financing facilities and structures are quickly becoming an area of concentration.

INVESTMENT BANKING

Khan Bank has strengthened its financial capacity by raising USD 160.4 million in senior and subordinated debt in 2014. 16% of the Bank's total funding is now comprised of long term financing from international financial institutions and it is strengthening the Bank's capability to provide financing with longer and more flexible terms to its customers as well as to manage its asset and liability maturity gap effectively.

The Asian Development Bank (ADB) provided a USD 40.0 million long term senior loan to Khan Bank to support the financing of micro, small and medium-sized businesses in Mongolia. This follows a 2007 term loan which matured in 2014 provided by ADB.

Khan Bank received USD 13.4 million from Symbiotics SA, including USD 2.0 million in medium-term local currency. RosEvroBank of the Russian Federation provided EUR 5.0 million (USD 6.9 million) medium-term funding to diversify the Bank's funding sources. Both Symbiotic and RosEvroBank are new lenders to Khan Bank.

ResponsAbility and BlueOrchard, with long term relationships with the Bank, provided a total of USD 15 million in new senior loans to the Bank. Additionally, Sawada Holdings Co.Ltd, Khan Bank's majority shareholder provided USD 7 million in senior long term debt.

Finally, in 2014 the Bank enhanced its funding source and capital base through the drawdown of USD 79.0 million from 2013 loan commitments. This included a syndicated loan facility from IFC, senior loan agreement with EBRD, and subordinated debt from the IFC Capitalization (Subordinated debt) Fund,L.P.

Under long term swap agreements with the BOM, Khan Bank has swapped almost all the foreign currency funding raised in 2014 into MNT. Swap maturities are matched to the underlying loan maturities. This has permitted the Bank to effectively use the offshore funding in MNT loans to its customers.

Besides strengthening financial capacity of the Bank by raising longer term funds from international financial institutions, the Investment Banking Department delivers daily capital and financial market news and provides financial intermediary and advisory service to our customers to support the raising of funds from international market.

In addition, within the Bank's plans to provide capital market services to its customers under the Banking Law, the Securities Market Law and other relevant legislation, the Bank is now in process of establishing a securities custody service that will provide securities safekeeping, trade settlement corporate action, and other services to exercise ownership rights of securities for investors.





RISK MANAGEMENT

The objective of Khan Bank's Risk Management is to minimize risk at the Bank's target profit level by means of definition, prediction, assessment, reporting and monitoring of potential risks at all levels of banking activities; this includes identifying the factors affecting risks, establishing procedures to manage and prevent risks, developing methodology, and determining risk management policies and procedures.

Within this objective, the Bank has established a cohesive framework for its risk management system.

Herein:

THE BOARD RISK MANAGEMENT COMMITTEE

The Board Risk Management Committee (BRMC) assists the Board in fulfilling its oversight responsibilities related to the management of credit, market, liquidity, operational, compliance, reputation and other risks of the Bank.

BRMC meets as specified in its charter; reviews the Bank's Risk Committee activities and decisions regularly; monitors top risks to the Bank and action plan to decrease/mitigate those risks; makes appropriate recommendations to enhance and improve the Bank's risk management framework and activities; suggests setting up internal limits and reports to the Board.

With the overall slowdown of the country's economy and the unfavorable impact of macro indicators on the banking industry, in order for the Bank to protect interests of the Bank's stakeholders (clients, depositors, shareholders, and employees) as well as to reach its business objectives, the Board approved the Risk Appetite Statement of the Bank and ensures its implementation.

THE HEAD OFFICE RISK COMMITTEE

The Head Office Risk Committee (RC) regularly monitors the Bank's activities to ensure they are in line with the risk management policy and risk appetite limits, which are set by the Board. RC, reports risk management updates to the BRMC on a monthly basis. It identifies the Bank's top risks, develops initiatives to decrease/mitigate risks, approves guidance related to risk management, and monitors its implementation.



Head Office Risk Committee Organization

- Operational Risk Sub-Committee
- IT Risk Sub-Committee
- Card Risk Sub-Committee
- Information Security Sub-Committee with the purpose of monitoring and managing specific risks more closely. These sub committees hold meetings on a regular basis, plan actions to mitigate the risks, and monitor the action plan implementation.

RISK MANAGEMENT TEAM

The risk management team consists of the Credit Policy Regulation Department, Credit Risk Department, Operational and Market Risk Department, and Special Assets Department. These departments are responsible for ensuring implementation of policy and procedures related to the risk identification, monitoring, providing support to the business units in risk management, providing consolidated enterprise level risk information, and organizing Head Office Risk Committee.

The Branch Risk Committee and Head Office departments manage risks by identification, assessing potential risks, planning and implementing actions to mitigate risks on regular basis according to the Unit Risk Assessment Procedure within the framework of their operations.

CREDIT RISK MANAGEMENT

Khan Bank manages credit risk by comprehensive approach to identify, assess, monitor potential risk in the loan portfolio, take actions and prevent from potential risk beyond the risk appetite and business objectives.

The Bank's Loan Policy defines the main principles to be pursued in all credit operations such as receiving loan requests, preparing loan proposals, decision-making, disbursement, monitoring, collateral appraisal and requirements, loan loss provisioning, and problem loan work-out activities.

RISK MANAGEMENT

Khan Bank uses loan impairment assessment model and standard to assess loan default ratios considering economic factors and historic statistics of loan losses when calculating loan loss provision according to international standards.

The Bank manages credit risk by analyzing loan portfolio quality indicators, performing stress testing and scenario analysis, setting up internal limits on the portfolio and borrower's concentration, monitoring of the Watch list accounts.

The Bank has started using a loan origination module in lending operations, which is designed for registering customers' loan requests, making decision upon analysis, establishing a consolidated loan application database and improving ongoing monitoring during loan analysis phase.

The Bank has been continuously improving and enhancing its Environmental and Social Policy since 2009. The Bank actively supports sustainable finance initiatives and principles, implemented in the Mongolian banking sector.

MARKET RISK MANAGEMENT

1. Foreign exchange rate risk

Within the scope of FX risk management, Khan Bank ensures Central Bank of Mongolia's prudential ratios and measures FX risk internally by Value-at-Risk (VaR). The Assets and Liabilities Committee (ALCO) approves limits on deals with the Central Bank of Mongolia, foreign and local banks and customers using FX spot and derivatives, stop loss limit of total deals and revaluation on a quarterly basis. An additional module relating to limit control has been introduced to trading software in order to establish the condition to monitor implementation of above mentioned limits automatically.

2. Liquidity risk

Within the scope of liquidity risk management, Khan Bank ensures the Central Bank of Mongolia's prudential ratios and liquidity requirements set

by International Finance Institutions regularly. Furthermore, the maturity gap report and liquidity stress test results are reported to ALCO and used for decision making.

3. Interest rate risk

Within the scope of interest rate risk management, an interest-sensitive assets and liabilities maturity gap report is presented to ALCO on a regular basis and manages the interest rate risk. The Bank calculates actual value of total financial assets and liabilities on a quarterly basis and uses it for internal operations.

The Bank has approved Procedure for interest rate risk measurement and management which was developed based on the Bank of Mongolia and Basel Committee guidelines. Interest rate measurement reports and limitations are prepared and regularly reported to ALCO in accordance with the procedure.

OPERATIONAL RISK MANAGEMENT

Operational risk refers to loss incurred due to failure of internal banking operation or insufficiency, individual and information technology system and external factors. Khan Bank Head Office Risk Committee defines operational risk management strategy and approves internal policy and procedures.

Khan Bank obtained insurance under a Bankers Blanket Bond and Public Liability Insurance policy in order to transfer potential loss from certain types of operational risks to a third party.

INFORMATION TECHNOLOGY

Khan Bank has been making constant investment in its technology infrastructure while ensuring the growth and continuity of the banking system.

In 2014, Khan Bank successfully introduced an Information Security Management System (ISMS) for the purpose of ensuring the information security of its partners and customers and integrity of its operation, and received ISO/IEC 27001:2013 international standard certification – the first time it has been awarded in Mongolia.

The establishment of ISMS in accordance with the requirements of ISO/IEC 27001:2013 enables the Bank to benefit from protection of its information and information assets from all types of external, internal, intentional and accidental threats, in addition to the prevention and mitigation of risks associated with information security, thus ensuring its business continuity.

Moreover, the Bank has implemented many activities aimed at improving information technology and software. For instance, the Khan Bank Primary Data Center was awarded as Tier II Certification of Design Documents by the Uptime Institute in August of 2014 and also received Tier II Certification of Constructed Facility in January 2015 – confirmation that the data center construction meets the required facility design standards for a Tier II facility.

Furthermore, Khan Bank has become the first organization in Mongolia to implement high-speed Oracle ExaData hardware as its database of the key production system. In 2014, the Bank completed the installation of Oracle ExaData hardware that is used as a reserve in case of information technology malfunctions and defects. It enables the Bank to ensure the consistent operation of the key production system and perform without any difficulties during any malfunction or disruption.

During the year of 2014-2015, the Bank completed transferring VSAT and wireless network of around 90 rural branches to fiber-optic links.

SWIFT SCORE

Provide organizations that have connected with Swift Score with services of depositing incomes in accordance with the standard. This service introduction enables the Bank to become a correspondent bank.

PENSION FUND

To initiate cumulative savings service to the employees of both our bank and corporate partners.

ANTI MONEY LAUNDERING

Implementation of the software against money laundering and terrorism financing enables the Bank to screen customers through international lists (EU, OFAC, UN), report suspicious customers and retain a database of suspicious customers while making analysis and determining the risk level. The Bank has been also provided with the opportunity of recognising suspicious customers earlier, taking relevant measures urgently and reducing risks, since the functions of the standard report sent to the BOM have been enhanced.

LOAN ORIGINATION SYSTEM

The system provides automatic registration of loan requests, credit analysis and decision making processes. Thanks to this system, the Bank has database of loan requests and credit analysis as well being able to make urgent decisions on loan requests and reduce manual operations by tellers.

VISA EMV, MASTERCARD, CUP EMV, JCB CARD ACQUIRING:

Bank has enabled its POS terminals and ATMs to accept foreign chip cards such as VISA, MasterCard and CUP EMV.

We have been making continuous endeavors to improve our performances in providing our customers with the highest quality products and services. Khan Bank's customers have been provided with the opportunity to receive reliable and constant services since the Bank acquired such an internationally accepted standard certification.

COMPLIANCE

The Compliance Department was established in 2010 in order to organize internal policies and procedures, prevent the organization from compliance risk, implement the law on money laundering and combating terrorism financing and improve Know Your Customer policies.

To optimize management of compliance risk, the Compliance Risk Management Procedure was approved by the Risk Committee. The Procedure was drafted in accordance with International Standards for Information Security (IS) and incorporate the same requirements applied to foreign banks. Khan Bank is paying close attention to the implementation of this procedure to improve internal control.

Also in accordance with IS, in July 2014 the Risk Committee approved a Document Management Procedure to monitor and provide integrated management to information assets and documents. This procedure will be further refined and attention paid to ensuring the implementation and improving the document management system to further support internal control.

To assist the management of the Bank in making strategic decision in implementing the US Foreign Asset Tax Compliance Act, a risk assessment, impact analysis and legal opinion were conducted, and the decision was made accordingly. Furthermore, the Bank was registered as a Participating Foreign Financial Institution with the US Internal Revenue Service (IRS) and entered into the related contract on April 24 2014, later published in the international list in June 2014. According to the requirement of this act, the work of updating customer information and obtaining necessary information from US customers is taken step by step.

To improve access to the Bank's existing policies and procedures, a consolidated registry of existing policies and procedures and a list of invalid legal acts were created, and are being updated regularly. Moreover, the Bank established a database of policies and procedures by using the opportunity of e-GRC program and has been granted the right to apply this to all employees.

A specific training program was implemented successfully in order to build a compliance culture, and improve the knowledge of policies and procedures related to compliance. Among the major achievements of the program the academic topics related policies and procedures were prepared and e-lessons were shared via the intranet. 50 compliance related questions were included for the tellers test with 200 questions and a compilation of 30 frequently asked questions with answers was prepared, and a total 568 employees who are in charge of administration of the unit and responsible for internal training participated in the training.

INTERNAL AUDIT

PURPOSE	The purpose is to enhance operations and internal control within the Bank and add to its value by conducting an independent audit on risk management, internal control and governance of the Bank at a professional level based on objective principles as well as by way of providing evaluation, conclusion and recommendations.
INDEPENDENCY	The Internal Audit Department operates under the Audit Committee of the Board of Directors and runs operations independently of the Bank's executive management.
PERFORMANCE	The Internal Audit Department conducts on-site and off-site audits covering operations of the Bank's head office, committees, branches and sub-branches as well as reporting its findings to the Audit Committee of the Board of Directors.
PRINCIPLE	The Internal Audit Department adheres to the Code of Ethics, Internal Audit Definition and Standards approved by the Institution of International Internal Auditors.
IN 2014	In total, 625 on-site and off-site audits covering the Bank's head office, committees, branches and sub-branches were conducted.

HUMAN RESOURCES

As an employer of choice, Khan Bank implements a flexible and rational human resource strategy and policies. Therefore, we create a working environment that supports employees, who are trusted by thousands of customers and who are the fundamentals of our success, with possibilities to grow, develop themselves and solve their social issues, as well as providing them with competitive salaries and remuneration in order to enhance the stability and productivity of our employees.

In 2014, we emphasized and implemented the following activities within the HR strategy, policy and programs. They are:

- In regard to the certification of ISO/IEC27001:2013 standards in Khan Bank, all HR legal acts were revised and updated in line with the above standards.
- Adjustments made into the policy and procedures to strengthen the performance appraisal and management system which has been implemented systematically since 2011.
- People Management Program (PMP) with four modules introduced to all managers with the aim of strengthening the managers' capacity and implementing the performance appraisal and management system successfully.
- Preliminary work to implement the HR cost management was completed.
- HR and Labor related legal advice service has been centralized.
- Employee's savings program was successfully implemented.



**NUMBER OF
EMPLOYEES**

As of year end 2014, the number of staff was over 5,700 including those on leave. Seventy percent were aged below 30.

**EMPLOYEE
SAVINGS
PROGRAM**

In order to increase employees' motivation, ensure their long-term and stable employment in the Bank, and to help them to generate additional income sources, the Employees' Savings Program has been officially implemented since January 2014. At the end of the year, a total of 5,700 employees, 70% of total employees, have enrolled in the savings program with a total of MNT 1.7 billion in savings accounts.

**EMPLOYEE
TRAINING AND
SCHOLARSHIP
PROGRAM**

Khan Bank encourages its employees to develop their skills and professionalism in a variety of ways which enables successful career development in future. In 2014, 228 trainings were organized in cooperation with internal and external trainers involving 5,700 employees.

Furthermore, the Bank granted four types of scholarships to talented and high potential employees. In 2014, the Bank granted Foreign MBA scholarship for three employees and Domestic Bachelor and Masters degree scholarship for 60 employees, foreign language scholarships for 39 employees and Bachelor study scholarship for 83 children of employees.

HUMAN RESOURCES

EMPLOYEE SOCIAL ISSUES AND HEALTH

The Bank spent MNT 1.1 billion for the social development of employees. It included non-refundable aid, additional pension for elders, scholarships, HR open days, campaigns, medical check-ups, sports and art competitions, public events, rewards, costs of sport and other clubs – all for the support and motivation of employees. The Bank also provides mortgage and consumer loans to qualifying employees under special programs.

Khan Bank has internally organized sport competitions in seven categories with the participation of 1,500 employees. The bank also successfully participated in seven sport competitions between commercial banks and state wide competitions. The bank welcomed 2015 with one gold medal in three categories, one silver and one bronze medal.

Within the Balanced Life Program with the intention of exploring and developing employees and giving them the opportunity to spend their leisure time properly, there are eight clubs operating with around 300 members at present.

EMPLOYEE SOCIAL RESPONSIBILITY

The Blood Donor Campaign was organized throughout the Bank in collaboration with the National Blood Transfusion and Study Center. A total of 767 employees were involved; 118 liters of blood were donated by 330 employees. During the campaign, blood classification, Hepatitis B, C and HIV testing services were provided.

INTERNAL COMMUNICATION

Internal communication strategy and policies were implemented with the aim of increasing two-way information flow between employees and managers, and motivating employees through the internal news channel

EMPLOYEE COMPOSITIONS

Khan Bank published its first book entitled Khan Tune, a collection of poems and short stories written by employees that had been previously re introduced and released on the intranet and monthly newsletter.

CORPORATE SOCIAL RESPONSIBILITY

Within the framework of its corporate social responsibility, Khan Bank has been implementing various projects and programs aimed at making contributions to the country's continuous development while protecting the rights of its customers and ensuring the health, security and social issues of its employees.

Moreover, Khan Bank has paid due taxes on time, reported financial statements accurately, increased the number of employees in parallel with expanding its businesses, supported eco-friendly production, reduced usage of water, electricity and paper, as well as fulfilling all the requirements of corporate social responsibility.

The Khan Bank Foundation, which was established in 2007 with the purpose of making continuous and considerable contributions to improvement of people's lives and the social development of the country, fulfills the main part of the Bank's mission to implement projects and programs dedicated to social well-being. The Foundation Board, composed of members of the Bank's management, approves the Foundation's plan and budget at the beginning of each year and monitors its performance.

Since 2007, the Foundation has invested a total of MNT 2.5 billion through implementation of more than 250 projects, and nationwide campaigns and programs designed to make a substantive contribution to social well-being in Mongolia...

In 2014, the Foundation invested over MNT 350 million to implement more than 20 new and long-standing projects and programs. Some of the projects are summarized below:

EDUCATION

During the 2013-2014 academic year, 110 high school graduates and 40 university students from Ulaanbaatar and 21 aimags are awarded the Khan Bank Scholarship with a total amount of MNT 70 million for their outstanding performances, active involvement in social and community activities, talents and strong commitment to pursuing further education and learning.

For the purpose of making contributions to the financial education of young people, Khan Bank is engaged in the Global Money Week program and the employees of 535 branches throughout the country teach the complex of lessons under the subject 'Money, Value of Money, Ways of Spending Money Wisely and importance of Savings' to over 5,700 students from high schools of nine districts of Ulaanbaatar and 21 aimags in interesting and engaging ways.

Through the Young Leadership Program implemented in cooperation with the Zorig Foundation and fully furnished classroom at the Mongolian State University's branch in Zavkhan aimag with innovative technologies and equipment, the Khan Bank Foundation encouraged the young generation to leadership and created a friendly environment for students in Zavkhan aimag to study.

CORPORATE SOCIAL
RESPONSIBILITY



PUBLIC HEALTH

In 2014, the Khan Bank Foundation opened one fully-refurbished daily treatment room at the Outpatient Department of the National Trauma Orthopedic Research Center of Mongolia within its mission to make contributions to public health. Moreover, a waiting room of the Reproductive Health Counseling Outpatient of the National Center of Maternal and Children's Health was refurbished to enable mothers and children to receive medical treatment in a convenient and comfortable environment within the scope of the Year to Support Maternity and Children's Health.

The Khan Bank Foundation, National Cancer Center (NCC) and Mongolian National Broadcaster (MNB) jointly implemented the 'National Campaign against Cancer' since 2011 aimed to increase public awareness of early detection and prevention from cancer.

Within the framework, the team of NCC doctors visit rural areas enabling rural residents to receive comprehensive medical diagnosis and cancer treatment at early stages. The campaign has become well known as an extremely supportive action for the health of those in rural areas, as well as saving them time.

The doctors and specialists underline that the nationwide prevention campaign cannot reach its target if it is conducted for only one year; such a campaign is required to be carried out for several additional years in order to fulfill its goals. As a result of the 2014 campaign implemented in nine aimags with higher cancer risk rates, and financed with MNT 123 million, more than 14,500 people were enrolled in complete cancer screening and 78 necessary operations were conducted on site.

Additionally, more than 700 rural doctors were enrolled in professional training sessions for improving the quality of cancer diagnose and treatment, and 636 Khan Bank voluntary employees were educated to deliver information on cancer preventions to the public.

CORPORATE SOCIAL RESPONSIBILITY

SUPPORTING DISADVANTAGED GROUPS

"Khoromkhon" Football Club provides talented young children from lower-income families and ger districts with free training, clothes and opportunities to participate in competitions, spending their free time constructively, and gaining positive behaviors and skills from working in groups. The Khan Bank Foundation sponsored these children aged 13-15 for clothes and training expenses in order to participate in the Dream League.

Within the framework of International Children's Day, more than 600 children from the families with lower incomes throughout the country were enrolled in a special entertainment program and received gifts.

ENVIRONMENT

In the scope of the 'Khan Bank Forest' program implemented every year, maple trees that good for children are planted at kindergartens No. 89, 93, 96, 97, and 141; fast growing yellow acacia trees were planted at kindergarten No.133 May 22-23, 2014 together with the pre-school children.

In the countryside, trees were planted outside of the new buildings of Bayan-Ulgii and Khuvsgul branches, along the road in Uvurkhangai aimag and along the main road in Umnugovi aimag respectively for the purpose of providing protection from desertification and increasing green environment. In Khovd aimag, Khan Tugul which was established outside of the 1st School last year has been extended. Khan Bank's endeavors to create green environment have been successfully implemented and the number of planted trees since 2008 has reached 15,500 so far.

SUPPORTING DISABLED PEOPLE

In 2014, Khan Bank Foundation initiated and implemented a number of creative activities to encourage and support disabled people on the occasion of the International Day of Persons with Disabilities, which takes place on 3rd December each year.

For instance, Khan Bank Foundation sponsored the We Can Do Everything Except Hear joint exhibition of fine arts by teachers of the 29th High School for the Deaf and artist L.Dashdendev and his students in order to support artists, painters and talented students with hearing impairments on 3rd December.

As for people with physical disabilities, using a wheelchair is one of the most faced difficult problems people face because ill-fitting and uncomfortable wheelchairs can cause certain health risks. Therefore, Khan Bank presented five wheelchairs, which were made in Mongolia by local SME, to five people with physical disabilities. Apart from assisting people with disabilities, Khan Bank also achieved its aim to support domestic SMEs and production by presenting the opportunity to make the best quality wheelchairs in Mongolia through this program.

"Sujatashand" NGO founded by Japanese volunteers provides disabled children who are home-educated with opportunities to receiving mental and physical rehabilitation training free of charge. The Khan Bank Foundation donated training materials and teaching aids to the NGO.



KHAN BANK LLC

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

31 December 2014

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INDEPENDENT AUDITOR'S REPORT

To the members of Board of Directors and Shareholders of Khan Bank LLC

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Approved by:


 ZAO PricewaterhouseCoopers Audit
 31 March 2015
 Ulaanbaatar,
 Mongolia

Signed by:


 D. Tovuuudorj
 Director
 Medeel Audit LLC


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Khan Bank LLC
Summary Statement of Financial Position

<i>In thousands of Mongolian Tugriks</i>	31 December 2014	31 December 2013
Assets		
Cash and cash equivalents	1,131,550,460	1,385,864,157
Mandatory reserves with the Bank of Mongolia	293,846,962	346,379,624
Due from other banks	88,739,864	88,773,090
Loans and advances to customers	2,971,657,108	2,446,412,438
Investment securities available for sale	-	133,707,596
Investments in associates	512,888	512,888
Short term investments	151,536,629	63,017,544
Long term investments	270,275,863	185,291,673
Investment securities held to maturity	22,724,954	14,878,420
Intangible assets	9,325,404	8,081,903
Property and equipment	112,341,721	96,775,122
Other financial assets	34,224,067	7,190,670
Other non-financial assets	29,338,777	24,071,117
Total assets	5,116,074,697	4,800,956,242
Liabilities		
Due to other banks	603,984,730	509,962,322
Customer accounts	2,744,750,103	2,773,725,416
Deferred grants	-	4,117,693
Other borrowed funds	1,077,922,068	1,016,124,723
Current income tax liability	2,913,633	1,412,726
Deferred income tax liability	7,192,927	4,342,364
Other financial liabilities	12,399,455	11,342,865
Other non-financial liabilities	10,083,470	8,450,671
Subordinated debt	213,211,444	135,884,854
Total liabilities	4,672,457,830	4,465,363,634
EQUITY		
Share capital	32,995,030	32,995,030
Share premium	14,140,923	14,140,923
Treasury stock	(28,613,934)	(28,613,934)
Revaluation surplus	20,583,600	21,211,299
Retained earnings	404,511,248	295,859,290
Total equity	443,616,867	335,592,608
Total liabilities and equity	5,116,074,697	4,800,956,242

Approved for issue and signed on behalf of the Executive Directors on 31 March 2015.


 NORIHIKO KATO
 Chief Executive Officer


 MUNKHBAYAR G.
 Director of Finance

Note: Basis of Preparation. These summary financial statements of Khan Bank LLC (the "Bank") have been prepared by extraction, without any modification, of the statement of financial position, and the statement of comprehensive income from the financial statements of the Bank prepared in accordance with International Financial Reporting Standards."

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Mongolian Tugriks	Note	2014	2013
Interest income	25	544,095,088	433,655,402
Interest expense	25	(302,672,450)	(239,527,959)
Net interest income		241,422,638	194,127,443
Provision for loan impairment	10	(24,009,312)	(13,697,402)
Net interest income after provision for loan impairment		217,413,326	180,430,041
Fee and commission income	26	29,551,401	23,807,634
Fee and commission expense	26	(2,810,317)	(2,172,456)
Gains less losses from trading in foreign currencies		12,422,076	19,813,741
Gains less losses from financial derivatives		10,098,749	(20,701,521)
Foreign exchange translation gain less losses		3,627,482	26,099,318
Gain on initial recognition of deposit below market rate	19,4	-	4,871,385
(Increase)/decrease of provision for other assets	18	(39,456)	39,985
Other operating income	27	1,232,262	6,870,148
Administrative and other operating expenses	28	(142,433,264)	(116,856,939)
Profit before tax		129,062,259	122,201,336
Income tax expense	29	(21,038,000)	(25,462,710)
Profit for the period		108,024,259	96,738,626
Other comprehensive income			
Revaluation of premises	17	-	7,076,351
Other comprehensive income for the year		-	7,076,351
Total comprehensive income for the year		108,024,259	103,814,977

In thousands of Mongolian Tugriks	Note	Share capital	Share premium	Treasury stock	Revaluation surplus	Retained earnings	Total equity
Balance at 1 January 2013	24	13,198,012	14,140,923	(28,613,934)	14,686,090	218,366,540	231,777,631
Profit for the year		-	-	-	-	96,738,626	96,738,626
Other comprehensive income	17	-	-	-	7,076,351	-	7,076,351
Total comprehensive income for the year		-	-	-	7,076,351	96,738,626	103,814,977
Realised revaluation reserve		-	-	-	(551,142)	551,142	-
Increase in share capital	24	19,797,018	-	-	-	(19,797,018)	-
Balance at 31 December 2013		32,995,030	14,140,923	(28,613,934)	21,211,299	295,859,290	335,592,608
Balance at 1 January 2014		32,995,030	14,140,923	(28,613,934)	21,211,299	295,859,290	335,592,608
Profit for the year		-	-	-	-	108,024,259	108,024,259
Realised revaluation reserve		-	-	-	(627,699)	627,699	-
Balance at 31 December 2014		32,995,030	14,140,923	(28,613,934)	20,583,600	404,511,248	443,616,867

STATEMENT OF CASH FLOWS

In thousands of Mongolian Tugriks	Note	2014	2013
Cash flows from operating activities			
Profit before tax		129,062,259	122,201,336
Adjustments to:			
Impairment provisions for loans and advances to customers	10	24,009,312	13,697,352
Amortization and depreciation	28	16,170,110	10,578,940
Fair value gain on derivative financial instruments	18	(10,098,749)	(4,068,300)
Net foreign exchange gain		(3,627,482)	(26,099,317)
Employee benefits from below market interest rates loans	28	2,570,388	2,091,500
Gain on initial recognition of deposit below market rate		-	(4,871,385)
Property and equipment written off		177,899	208,568
Gain on disposal of premises and equipment		(11,914)	(323,053)
Provision for other assets	18	39,455	(39,985)
Other provision		-	2,000,000
Interest income	25	(544,095,088)	(433,655,402)
Interest expense	25	302,672,450	239,527,959
		(83,131,360)	(78,751,787)
Cash flows used in operating activities before changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Bank of Mongolia		66,933,196	(115,048,850)
Net decrease/(increase) in due from other banks		44,130	(42,057,204)
Net increase in loans and advances to customers		(509,324,604)	(802,723,330)
Net decrease in other financial assets		1,432,985	(1,942,262)
Net increase in other non-financial assets		(624,323)	(1,125,973)
Net increase in due to other banks		17,707,120	428,883,940
Net (decrease)/increase in customer accounts		(35,443,020)	588,261,469
Net increase/(decrease) in other financial liabilities		919,167	(3,378,023)
Net increase in other non-financial liabilities		1,632,799	2,249,693
		(539,853,910)	(25,632,327)
Net cash used in operating activities before tax			
Income taxes paid		(16,686,530)	(23,657,713)
Interest received		533,765,482	417,742,720
Interest paid		(301,917,025)	(215,717,770)
		(324,691,983)	152,734,910
Net cash (used in)/from operating activities			

In thousands of Mongolian Tugriks	Note	2014	2013
Cash flows from investing activities			
Acquisition of premises and equipment		(29,008,694)	(29,040,882)
Proceeds from disposal of premises and equipment		1,054,591	787,837
Acquisition of intangible assets		(5,192,092)	(5,885,455)
Acquisition of short term investments		(245,514,477)	(134,041,128)
Proceeds from sale of short term investments		169,500,000	162,077,400
Acquisition of long term investments		(85,628,852)	(180,224,383)
Proceeds from sale of long term investments		5,000,000	14,000,000
Net cash used in investing activities		(189,789,524)	(172,326,611)
Cash flows from financing activities			
Proceeds from drawdown of other borrowed funds		459,007,689	828,815,408
Repayment of other borrowed funds		(324,184,283)	(137,167,492)
Proceeds from subordinated debt		53,438,400	17,107,200
Repayment of subordinated debt		-	(3,001,500)
Net cash from financing activities		188,261,806	705,753,616
Effect of exchange rate changes on cash and cash equivalents		71,906,004	53,073,854
Net decrease/(increase) in cash and cash equivalents		(254,313,697)	739,235,769
Cash and cash equivalents at the beginning of the period	7	1,385,864,157	646,628,388
Cash and cash equivalents at the end of the period	7	1,131,550,460	1,385,864,157

Refer to Notes 4, 11 and 15 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.

1. INTRODUCTION

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Khan Bank LLC (the "Bank").

The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with Mongolian regulations. As of 31 December 2014 and 2013, the Bank's immediate and ultimate parent is Sawada Holdings Co. Ltd. (the "Parent" or "the parent company"), a holding company incorporated and domiciled in Japan and listed on the Tokyo Stock Exchange. Sawada Holdings Co. also represents the ultimate controlling party of the Bank.

The Bank's shareholders are disclosed in Note 24.

Principal activity. The Bank has operated under a full banking license No. 2 issued by the Bank of Mongolia ("BOM") since 22 November 2006. The Bank's principal business activity is commercial and retail banking operations and financial services within Mongolia.

As at 31 December 2014 the Bank had 33 branches (including Head Office) within Mongolia (31 December 2013: 33 branches). Also, as at 31 December 2014 the Bank had 492 sub-branches (31 December 2013: 481 sub-branches).

The number of Bank employees as at 31 December 2014 was 4,681 (31 December 2013: 4,534).

Registered address and place of business. The Bank's registered address is: Seoul Street 25, P.O. Box-192 Ulaanbaatar-14250, Mongolia.

Presentation currency. These financial statements are presented in Mongolian Tugriks ("MNT"), unless otherwise stated.

2. OPERATING ENVIRONMENT OF THE BANK

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. 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.

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 tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes (refer to Note 32). 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments measured at fair value, and by the revaluation of premises, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Bank's share of net assets of an associate are recognised as follows: (i) the Bank's share of profits or losses of associates is recorded in the profit or loss for the year as share of result of associates, (ii) the Bank's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Bank's share of the carrying value of net assets

of associates are recognised in profit or loss within the share of result of associates. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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.

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.

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 33.

3. Summary of Significant Accounting Policies (Continued)

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.

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

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

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor

3. Summary of Significant Accounting Policies (Continued)

retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. 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 Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, 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.

Mandatory cash balances with the Bank of Mongolia. Mandatory cash balances with the Bank of Mongolia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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.

Short-term and long-term investments. Short-term and long-term investments represent government bonds and treasury bills issued by the Ministry of Finance of Mongolia and treasury bills issued by the Bank of Mongolia which are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from an issuer due on fixed or determinable dates and has no intention of trading the receivable. Government bonds and treasury bills issued by the ministry of Finance and treasury bills issued by the Bank of Mongolia are carried at amortised cost.

Investment securities available for sale. This classification includes investment securities which the Bank 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 Bank'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

3. Summary of Significant Accounting Policies (Continued)

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.

Investment securities held to maturity. This classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Bank 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.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank 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.

Sale and 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 such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented separately in the statement of financial position as 'repurchase agreements' and is carried at amortized cost.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank 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 and accrued over the life of repo agreements using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss 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 Bank 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 Bank

3. Summary of Significant Accounting Policies (Continued)

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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' 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. 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.

3. Summary of Significant Accounting Policies (Continued)

The Bank performs impairment assessment in accordance with IFRS requirements on a quarterly basis. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Impairment provision is determined through individual (specific) assessment and collective assessment. Specific assessment includes individually significant exposures and exposures with identified impairment indicators. Collective assessment includes exposures, which are not individually significant as well as individually significant exposures without objective evidence of impairment.

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

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.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other non-financial assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets (Note 18).

Renegotiated loans. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, 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.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. 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.

3. Summary of Significant Accounting Policies (Continued)

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 Bank 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. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Derivative financial instruments. 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 Bank does not apply hedge accounting.

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 4 and 29), except when related gains and loss were already treated as taxable income and deductible expenses in previous periods (Note 29). Long-term swaps with the Central Bank are taken to swap USD denominated long-term borrowings from international financial institutions to local currency. Therefore these long-term swaps in practice represent natural hedge of the foreign currency risk arising on the borrowings. As a result, unrealized foreign currency translation differences arising on the USD denominated borrowings from international financial institutions are recognized within gains less losses on derivatives, similar to the fair value changes on the related derivatives (Note 18). 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.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, 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.

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

Premises owned by the Bank are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income

3. Summary of Significant Accounting Policies (Continued)

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 Bank; 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.

Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

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

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

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

	Useful lives in years
Premises	30-60 years
Furniture, office equipment and vehicles	10 years
Computers and technical equipment	3-5 years

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

Intangible assets. The Bank's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software licenses.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Computer software (core banking software)	3-5 years

3. Summary of Significant Accounting Policies (Continued)

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank 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.

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.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers 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. In case of other borrowed funds received below market rates, recognition of gain on initial recognition depends on whether other borrowed funds and related lending represent a separate market segment (i.e. separate principal market) or not. The principal market is the market that has the greatest volume and level of activity for the related asset or liability. When other funds received below market rates and related lending meet definition of principal market, no gains or losses on initial recognition are recognised. When other borrowed funds received below market rate and related lending do not meet definition of separate principal market, gain on initial recognition is recognised through profit or loss account or as a grant, depending on whether definition of grant is met or not. For detailed information on other borrowed funds received below market rate and related management's judgments, refer to Note 4.

Subordinated debts. Subordinated debts are carried at amortized cost using the effective interest rate method.

The debts are convertible at maturity to common shares of the Bank at a price to be negotiated between the parties at the time of such conversion. Conversion into common shares is subject to approval of two thirds of the Bank's shareholders.

Income taxes. 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

3. Summary of Significant Accounting Policies (Continued)

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.

Uncertain tax positions. The Bank'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.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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 Bank 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

3. Summary of Significant Accounting Policies (Continued)

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.

Share capital and premium. Ordinary shares are 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.

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Bank until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

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.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. Thus, the Bank's functional currency and presentation currency is the national currency of Mongolia, Mongolian Tugrik ("MNT").

Monetary assets and liabilities are translated into the Bank'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 the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the BOM are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2014 the principal rate of exchange used for translating USD denominated balances was USD 1 = MNT 1885.60 (31 December 2013 USD 1 = MNT 1,654.10).

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

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

As required by law, companies in Mongolia make contributions to the government pension scheme - Social Security and Health Insurance Fund. Such contributions are recognized as an expense in the profit or loss as incurred. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3. Summary of Significant Accounting Policies (Continued)

Share-based payments. The Bank recognises the services received or acquired in a share-based payment transaction when the services are received. The Bank 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 Bank 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 Bank measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Bank 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.

The information on Share Appreciation Rights (SAR) is provided in Note 22.

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

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Long term USD/MNT SWAPS with central bank. Starting the first quarter of 2014, the Bank participated in a new long term SWAP program with the central bank. The Bank has agreed long term USD/MNT SWAPS ranging in maturity from a minimum of 1 year to a maximum of 5 years. The forward price is determined by the Bank of Mongolia using the overnight MNT lending rate and current yield price on the USD Chinggis bond. There is no readily available market information on pricing such long term instruments. This forward price is lower than that obtained on regularly traded short term derivatives.

Management has considered whether gains should arise on initial recognition of such instruments. As the transactions were entered into by willing market participants, management's judgment is that these instruments 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 market segment (i.e. separate principal market).

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 (including long-term swaps) and unrealized foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e. until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 3,541,762 thousand is recognized as of 31 December 2014 (31 December 2013: nil), refer to Note 29.

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 requires 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 Bank's accounting policy (Note 3) 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 29. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 32.

Impairment losses on loans and advances to customers. The Bank 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 Bank makes judgments 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 the Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

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 25% 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 15,453,651 thousand (2013: MNT 3,844,130 thousand based on 10% increase or decrease in actual loss experience compared to the loss estimates), 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.

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Borrowings from government organizations. The Bank obtains long term financing from Mongolian government organizations (some of which relate to the programmes with involvement of 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 segment. The borrowings from governments organizations amounted to MNT 448,316,104 thousand as at 31 December 2014 (31 December 2013: MNT 674,123,548 thousand) and are disclosed in Note 21.

Deferred taxation on impairment losses on loans and advances to customers. 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. Given that the amount of such expenses is material, 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 deferred tax asset of MNT 2,071,622 thousand (twelve-month period ended 31 December 2013: 1,380,423 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. For more details on income tax, refer to Note 29.

Revaluation of premises. As disclosed in the Note 17, the Bank has engaged independent appraisers who performed a valuation of its head office building as of 30 June 2013, and the basis used for the appraisal was market value. As a result, the Bank has recognised within the Statement of Changes in Equity the increase in fair

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

value of this building through a revaluation reserve in the amount of MNT 7,076,351 thousand. Management considers that the value of the head office building did not changed significantly since 30 June 2013.

Management considers that the value of premises located in rural areas, as well as other premises located in Ulaanbaatar and other urban areas did not changed significantly since 31 December 2011 when the buildings were last valued by an Independent Appraiser.

Initial recognition of deposit from central bank. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. As disclosed in Note 19, during March 2013 the Bank has received a deposit denominated in MNT from the Bank of Mongolia in the amount of MNT 200,000 million at 7% annual interest rate for a period of one year. There is no restriction on usage of related funds except for a restriction on investing in consumer loans and treasury bills issued by the Bank of Mongolia i.e. Mongolian banks which received such deposits have full discretion in determining interest rates on loans issued to customers or other financial assets acquired from these funds.

Management has concluded that the related deposit was received at the interest rate below market rate. Based on available information on comparable transactions, management made a judgment that the policy rate of the Bank of Mongolia represents the best approximation of market interest rate on MNT funding. As a result, related deposit was recognised at its fair value at initial recognition of MNT 195,128,615 thousand. Gain on initial recognition in the amount of MNT 4,871,385 thousand (i.e. the difference between nominal value of this deposit and their fair value) was credited to profit or loss for the period within the first quarter of 2013. In the fourth quarter the Bank of Mongolia requested earlier repayment of the deposits and as a result, according to contract, a interest rate of 4% should be applied and therefore the Bank booked an additional gain of MNT 4,583,333 thousand as other operating income in 2013 (Note 27).

Initial recognition of borrowings from central bank under Government's programs. During the second quarter of 2013, the Bank obtained financing from the Bank of Mongolia under new Government programs for financing the construction sector and mortgage lending. These funds are denominated in MNT and obtained at interest rates of 7% p.a. and 4% p.a., respectively, which are lower than rates at which the Bank could source the funds from other lenders at Mongolian market.

As disclosed in Note 21, in case of funds obtained 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). Further, the Bank of Mongolia has set deadlines for use of received funds through issuance of relevant loans which meet specific criteria, while unused funds should be returned and a higher interest rate would be paid. 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.).

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Management made a judgment that the policy rate of the Bank of Mongolia of 10.5% p.a. represents the best approximation of market interest rate on MNT funding, and the Bank has recognised grants in the amount of MNT 7,510,441 thousand at initial recognition for the entire amount, as all the funds were used within the deadline. Related funds were repaid to the Bank of Mongolia during 2014, and thus there is no outstanding balance of government grants as of 31 December 2014.

As disclosed in Note 21, the Bank received funds 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. Funding is available to the other Mongolian banks and the distribution of funds by the Bank of Mongolia is in proportion to each bank's share of mortgage loans. 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. 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 market segment (i.e. separate principal market).

Mongolian Mortgage Corporation LLC (MIK) securitisation transaction. Since the fourth quarter of 2013, the Bank participated in three MIK securitization transactions; one in 2013 and the other two in 2014. A total of MNT 225,151,500 thousand of the 8% Mortgage loans was sold to MIK SPC1, MIK SPC2, MIK SPC3, special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) amounting to MNT 202,636,290 thousand Senior RMBS notes bearing interest at 4.5% and MNT 22,515,210 thousand Junior RMBS notes bearing interest at 10.5%.

The loans have been purchased by 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-SPC, 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 will be 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 judgment 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 judgment 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 judgment is that these instruments 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 market segment (i.e. separate principal market).

Tax legislation. Mongolian, tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

"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 any material impact on the Bank's financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity 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 judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have any material impact on the Bank's financial statements.

IFRIC 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 any material impact on the Bank's financial statements.

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 any material impact on the Bank’s financial statements.

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 any material impact on the Bank’s financial statements.

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 Bank 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.
- 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 Bank is currently assessing the impact of the new standard 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 Bank is currently assessing the impact of the new standard 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 Bank is currently assessing the impact of the new standard 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 Bank is currently assessing the impact of the new standard 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 Bank is currently assessing the impact of the new standard on its 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

6. New Accounting Pronouncements (Continued)

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 Bank 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 Bank is currently assessing the impact of the new standard on its 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 judgements 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 Bank is currently assessing the impact of the new standard 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

6. New Accounting Pronouncements (Continued)

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 Bank 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 Bank is currently assessing the impact of the new standard 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.

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

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 Bank's financial statements.

7. CASH AND CASH EQUIVALENTS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Cash on hand	146,833,606	171,174,300
Cash balances with the Bank of Mongolia (other than mandatory reserve deposits)	-	214,758,627
Correspondent accounts with other banks:		
- Mongolia	1,946,726	1,659,698
- Other countries	42,516,076	305,750,706
Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	222,166,050	-
Bank of Mongolia treasury bills	238,128,953	568,662,367
Placements with other banks with original maturities of less than three months	322,508,348	66,811,711
Government treasury bills	157,450,701	57,046,748
Total cash and cash equivalents	1,131,550,460	1,385,864,157

Cash and cash equivalents are not collateralised. All amounts are classified as neither past due nor impaired.

Correspondent accounts, overnight placements, Bank of Mongolia and Government treasury bills, placements and deposits with the Bank of Mongolia and other banks and repurchase agreements with original maturities of less than three months represent balances with large and well-known foreign banks, top-rated Mongolian banks and the Bank of Mongolia.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at 31 December 2014 was as follows.

7. Cash and Cash Equivalents

In thousands of Mongolian Tugriks	Cash on hand	Correspondent accounts with other banks	Reverse securities sale and repurchase agreements with other banks	Bank of Mongolia treasury bills	Placements with other banks with original maturities of less than three months	Government treasury bills	Total
Neither past due nor impaired							
- Cash on hand	146,833,606	-	-	-	-	-	146,833,606
- Central Bank of the Mongolia	-	-	-	238,128,953	50,013,699	-	288,142,652
- Government of Mongolia	-	-	-	-	-	157,450,701	157,450,701
- AA- to AA+ rated	-	1,034,084	-	-	-	-	1,034,084
- A- to A+ rated	-	36,932,375	-	-	6,765,533	-	43,697,908
- BBB- to BBB+ rated	-	394,884	-	-	-	-	394,884
- B- to B+ rated	-	2,086,770	179,763,676	-	113,620,573	-	295,471,019
Unrated	-	4,014,689	42,402,374	-	152,108,543	-	198,525,606
Total cash and cash equivalents	146,833,606	44,462,802	222,166,050	238,128,953	322,508,348	157,450,701	1,131,550,460

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at 31 December 2013 was as follows.

In thousands of Mongolian Tugriks	Cash on hand	Cash balances with the Bank of Mongolia (other than mandatory reserve deposits)	Correspondent accounts with other banks	Bank of Mongolia treasury bills	Placements with other banks with original maturities of less than three months	Government treasury bills	Total
Neither past due nor impaired							
- Cash on hand	171,174,300	-	-	-	-	-	171,174,299
- Central Bank of the Mongolia	-	214,758,627	-	568,662,367	-	-	783,420,994
- Government of Mongolia	-	-	-	-	-	57,046,748	57,046,748
- AA- to AA+ rated	-	-	28,334,362	-	-	-	28,334,362
- A- to A+ rated	-	-	276,201,313	-	44,457,560	-	320,658,873
- BBB- o BBB+ rated	-	-	375,187	-	-	-	375,187
- B- o B+ rated	-	-	1,068,796	-	16,541,007	-	17,609,803
Unrated	-	-	1,430,746	-	5,813,144	-	7,243,890
Total cash and cash equivalents	171,174,300	214,758,627	307,410,404	568,662,367	66,811,711	57,046,748	1,385,864,157

Correspondent accounts and placements with unrated banks relate to medium-sized Mongolian banks. Management assesses the credit quality of placement with unrated banks based on its general reputation on the Mongolian market and other available information (such as publicly available financial statements).

Currency, interest rate and maturity analysis of cash and cash equivalents are disclosed in Note 30.

8. MANDATORY RESERVES WITH THE BANK OF MONGOLIA

The Bank maintains mandatory reserves with the Bank of Mongolia, in accordance with the requirements of the Bank of Mongolia. The balances maintained with the Bank of Mongolia are set at percentages based on a 14-day period. As of 31 December 2014, the mandatory reserve held with the Bank of Mongolia was MNT 293,846,962 thousand (31 December 2013: MNT 346,379,624 thousand).

Mandatory reserve with the Bank of Mongolia is neither past due nor impaired as of 31 December 2014 and 31 December 2013.

9. DUE FROM OTHER BANKS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Short-term placements with other banks with original maturities of more than three months and less than one year	88,739,864	88,773,090
Total due from other banks	88,739,864	88,773,090

Amounts due from other banks are not collateralised and are all considered neither past due nor impaired.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2014 and 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Neither past due nor impaired		
- B- to BB+ rated	22,691,791	-
- Unrated	66,048,073	88,773,090
Total due from other banks	88,739,864	88,773,090

Placements with an unrated bank in the amount of MNT 66,048,073 thousand relate to a medium sized Mongolian bank. Management assesses the credit quality of placement with this bank based on its general reputation on the Mongolian market and other available information (such as publicly available financial statements).

Refer to Note 33 for the estimated fair value of amounts due from other banks. Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 30.

10. LOANS AND ADVANCES TO CUSTOMERS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Business lending	1,284,820,121	1,154,551,376
Consumer lending	1,569,809,754	1,219,717,314
Agricultural lending	178,841,835	110,585,044
Total gross loans and advances to customers	3,033,471,710	2,484,853,734
Less: Provision for loan impairment	(61,814,602)	(38,441,296)
Total loans and advances to customers	2,971,657,108	2,446,412,438

The aggregate amount of loans to the 30 biggest customers amounted to MNT 493,050,264 thousand and represents 16.3% of total loans and advances to customers at 31 December 2014. Similarly, the aggregate amount of loans to the 30 biggest customers as of 31 December 2013 amounted to MNT 404,250,207 thousand and represented 16.3% of loan portfolio.

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

In thousands of Mongolian Tugriks	Business lending	Consumer lending	Agricultural lending	Total
Provision for loan impairment at 1 January 2014	34,272,961	3,357,496	810,839	38,441,296
(Recovery of) / provision for impairment during the period	20,568,632	3,242,081	198,599	24,009,312
Amounts written off during the period as uncollectible	(11,223)	(511,009)	(113,774)	(636,006)
Provision for loan impairment at 31 December 2014	54,830,370	6,088,568	895,664	61,814,602

Movements in the provision for loan impairment during 2013 are presented below.

In thousands of Mongolian Tugriks	Business lending	Consumer lending	Agricultural lending	Total
Provision for loan impairment at 1 January 2013	22,077,998	2,566,917	673,263	25,318,178
(Recovery of) / provision for impairment during the period	12,298,430	1,114,812	284,110	13,697,352
Amounts written off during the period as uncollectible	(103,467)	(324,233)	(146,534)	(574,234)
Provision for loan impairment at 31 December 2013	34,272,961	3,357,496	810,839	38,441,296

10. Loans and Advances to Customers (Continued)

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

In thousands of Mongolian Tugriks	2014		2013	
	Amount	%	Amount	%
Individuals	1,569,451,380	52%	1,219,717,314	49%
Trade and commerce	396,952,825	13%	390,709,993	16%
Construction	268,615,368	9%	242,896,177	10%
Mining	132,008,550	4%	97,281,968	4%
Agriculture	118,019,623	4%	85,500,707	3%
Real estate	82,173,804	3%	73,316,312	3%
Food industry	47,007,272	2%	42,960,493	2%
Chemical production	40,721,685	1%	19,199,033	1%
Transportation	33,213,551	1%	57,820,801	2%
Paper production	29,901,317	1%	32,728,032	1%
Metal production	20,285,919	1%	13,497,612	1%
Health and social organizations	17,129,087	1%	14,955,529	1%
Other	277,991,329	8%	194,269,763	7%
Total loans and advances to customers (before impairment)	3,033,471,710	100%	2,484,853,734	100%

Information about collateral at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	Business Lending	Consumer Lending	Agricultural Lending	Total
Loans collateralised by:				
- real estate properties	1,049,931,869	552,440,820	17,970,558	1,620,343,247
- vehicles	8,808,389	100,248,567	12,822,818	121,879,774
- equipment	33,067,646	1,327,189	671,421	35,066,256
- goods in turnover	31,772,629	1,512,635	7,194	33,292,458
- other	155,535,565	143,299,322	147,186,231	446,021,118
Unsecured loans	5,704,023	770,981,221	183,613	776,868,857
Total loans and advances to customers (before impairment)	1,284,820,121	1,569,809,754	178,841,835	3,033,471,710

10. Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	Business Lending	Consumer Lending	Agricultural Lending	Total
Loans collateralised by:				
- real estate properties	1,009,695,755	388,894,930	5,704,950	1,404,295,635
- vehicles	25,900,798	10,848,771	1,361,249	38,110,818
- equipment	33,758,229	1,032,744	1,232,331	36,023,304
- goods in turnover	36,836,621	3,193,647	19,525	40,049,793
- other	45,452,558	108,195,995	101,962,043	255,610,596
Unsecured loans	2,907,415	707,551,227	304,946	710,763,588
Total loans and advances to customers (before impairment)	1,154,551,376	1,219,717,314	110,585,044	2,484,853,734

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. Loans with other collateral include various types such as jewellery, animals (in case of agricultural loans), receivables and income from business activities of the customer or guarantor, company shares, mining licenses etc.

Unsecured loans mostly consist of pension and salary loans. Even though for these loans the Bank doesn't require separate collateral, the Bank 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 Bank is to receive pension payments from the Government or salary payroll through the Bank's account.

10. Loans and Advances to Customers (Continued)

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

In thousands of Mongolian Tugriks	Business lending	Consumer lending	Agricultural lending	Total
Neither past due nor impaired 2014				
- Excellent	385,237,360	569,339,486	142,999,172	1,097,576,018
- Good	769,589,632	991,546,196	35,441,994	1,796,577,822
- Loans renegotiated	43,344,727	2,282,272	124,106	45,751,105
Total neither past due nor impaired	1,198,171,719	1,563,167,954	178,565,272	2,939,904,945
Past due but not impaired				
- 1 to 30 days overdue	749,760	799,210	42,439	1,591,409
- 31 to 90 days overdue	1,468,603	1,217,940	31,032	2,717,575
- 91 to 180 days overdue	1,553,219	225,635	-	1,778,854
- 181 to 360 days overdue	1,859,507	271,347	-	2,130,854
- over 360 days overdue	422,032	155,034	-	577,066
Total past due but not impaired	6,053,121	2,669,166	73,471	8,795,758
Impaired loans				
- not past due	22,263,496	-	-	22,263,496
- 1 to 30 days overdue	3,506,404	-	-	3,506,404
- 31 to 90 days overdue	15,270,483	-	-	15,270,483
- 91 to 180 days overdue	3,918,169	925,335	36,681	4,880,185
- 181 to 360 days overdue	11,721,893	1,420,255	13,771	13,155,919
- over 360 days overdue	23,914,836	1,627,044	152,640	25,694,520
Total impaired loans	80,595,281	3,972,634	203,092	84,771,007
Less impairment provisions	(54,830,370)	(6,088,568)	(895,664)	(61,814,602)
Total loans and advances to customers	1,229,989,751	1,563,721,186	177,946,171	2,971,657,108

10. 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	Business lending	Consumer lending	Agricultural lending	Total
Neither past due nor impaired 2013				
- Excellent	453,113,683	489,797,697	93,551,261	1,036,462,641
- Good	615,054,703	725,726,679	16,663,286	1,357,444,668
- Loans renegotiated	3,218,374	1,384,942	14,199	4,617,515
Total neither past due nor impaired	1,071,386,760	1,216,909,318	110,228,746	2,398,524,824
Past due but not impaired				
- less than 30 days overdue	1,099,106	295,061	13,311	1,407,478
- 30 to 90 days overdue	861,571	374,615	25,722	1,261,908
Total past due but not impaired	1,960,677	669,676	39,033	2,669,386
Impaired loans				
- not past due	28,141,903	-	-	28,141,903
- 1 to 30 days overdue	2,547,360	-	-	2,547,360
- 31 to 90 days overdue	19,444,872	-	-	19,444,872
- 91 to 180 days overdue	21,712,849	577,050	12,225	22,302,124
- 181 to 360 days overdue	5,480,345	617,179	9,904	6,107,428
- over 360 days overdue	3,876,610	944,091	295,136	5,115,837
Total impaired loans	81,203,939	2,138,320	317,265	83,659,524
Less impairment provisions	(34,272,961)	(3,357,496)	(810,839)	(38,441,296)
Total loans and advances to customers	1,120,278,415	1,216,359,818	109,774,205	2,446,412,438

Credit quality analysis of neither past due nor impaired loans was based on the internal rating system described in Note 30. All loans neither past due nor impaired were classified as performing in accordance with guidelines of the Bank of Mongolia.

10. Loans and Advances to Customers (Continued)

The Bank 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 Bank'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 Bank assesses impairment of loans, grouping the loan portfolio into collective and specific categories. The primary factors that the Bank considers in determining whether a loan in the collective category is impaired are its overdue status and realisability of related collateral, if any. For the loans in the specific category, i.e. the loans which are individually considered to have a significant amount, the Bank considers specific impairment triggering events, future cashflows and realisability of related collateral to assess the loan impairment.

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	Collateral value	Carrying value of the assets	Collateral value
Business lending	1,254,523,768	4,885,100,798	30,296,353	24,592,500
Consumer lending	701,442,131	1,929,854,156	868,367,623	97,386,402
Agricultural lending	178,266,264	2,317,423,556	575,571	391,958
Total	2,134,232,163	9,132,378,510	899,239,547	122,370,860

The effect of collateral at 31 December 2013

In thousands of Mongolian Tugriks	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Collateral value	Carrying value of the assets	Collateral value
Business lending	1,148,932,387	5,562,706,714	5,618,989	2,711,574
Consumer lending	509,395,989	1,237,542,772	710,321,325	2,770,098
Agricultural lending	110,099,313	1,484,744,121	485,731	180,785
Total	1,768,427,689	8,284,993,607	716,426,045	5,662,457

10. Loans and Advances to Customers (Continued)

The collateral value presented in the tables above is the market price of collateral at the date of disbursement of loans.

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 18 for the details on repossessed collateral, which was recognised by the Bank as inventory.

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of loans and advances to customers are disclosed in Note 30.

11. INVESTMENT SECURITIES AVAILABLE FOR SALE

The balance represents a Senior residential mortgage-backed securities (RMBS) obtained from Mongolian Mortgage Corporation LLC securitisation transactions as disclosed in Note 4.

During the fourth quarter of 2013, the Bank participated in the first MIK securitisation transaction. The bank sold MNT 148,399,400 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 133,559,400 thousand Senior RMBS notes bearing interest at 4.5% and MNT 14,840,000 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 51,164,100 thousand and 25,588,000 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 46,047,690 thousand and MNT 23,029,200 thousand Senior RMBS notes bearing interest at 4.5% each and MNT 5,116,410 thousand and MNT 2,558,800 thousand Junior RMBS notes bearing interest at 10.5%.

As in case of the first tranche, Senior RMBS notes were recognized as Investment securities available for sale, while Junior RMBS notes were recognized as Investment securities held to maturity (Note 15), in accordance with the management's intentions. This led to increase in Investment securities held to maturity in the third quarter and the fourth quarter. On 24 February 2014, 8 July 2014 and 7 November 2014, the Bank repaid MNT 148.4 billion, MNT 51.2 billion and 25.6 billion of the 4% mortgage funding. MNT 133.7 billion, MNT 46 billion and MNT 23 billion of the amounts were repaid by selling the Senior Tranche RMBS notes to the Bank of Mongolia.

12. INVESTMENTS IN ASSOCIATES

The table below summarises the carrying amount of the Bank's investment in associates.

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Credit Information Bureau	243,638	243,638
Mongolian Mortgage Corporation (MIK)	201,000	201,000
Mongolian Banking Association Property Management (MBAPM)	58,250	58,250
Banking Training Center	10,000	10,000
Total investment in associates	512,888	512,888

As of 31 December 2014 and 31 December 2013, the Bank has the ability to exercise significant influence over Credit Information Bureau LLC, a company incorporated in Mongolia with the principal activity of collecting and providing information about credit customers, which is further used for the assessment of customers' creditworthiness by the banks during the loan approval process. The Bank owns 15% (31 December 2013: 19%) of the shares of Credit Information Bureau LLC, but is able to exercise significant influence through representation on the Board of Directors from 2009.

The Bank owns 1.2% of the share capital of Mongolian Mortgage Corporation LLC (MIK) as of 31 December 2014 (31 December 2013: 1.4%). In previous years, the Bank had ability to exercise significant influence through its representative on the Board of Directors. From 9 July 2014 the Bank no longer has representative on the Board of Directors. However, management considers that significant influence is still exercised through material transactions related to residential mortgage-backed securities, which are outlined in Notes 4, 11 and 15.

The Bank's share in the share capital of Mongolian Banking Association Property Management LLC (MBAPM LLC) was 15% as of 31 December 2014 and 31 December 2013. The Bank's representative was appointed to the Board of Directors of this investee in 2008 and thus the Bank is able to significantly influence the operational and financial decisions of this entity. In 2014, the Bank did not make any additional investment in this company.

The Bank owns 15% of the share capital of Banking Training Center which belongs to MBAPM LLC. The Bank's representative was appointed to the Board of Directors of this entity in 2010. No additional investments were made during the year ended 31 December 2014.

At 31 December 2014, the Bank's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit
Credit Information Bureau LLC	1,398,265	2,600	-	3,874
Mongolian Mortgage Corporation LLC (MIK)	48,743,927	11,023,058	6,707,336	3,596,342
Mongolian Banking Association Property Management (MBAPM)	534,217	2,891	33,382	29,694
Banking Training Center	243,233	4,698	205,796	13,336
Total	50,919,642	11,033,247	6,946,514	3,643,246

At 31 December 2013 the Bank's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit
Credit Information Bureau LLC	1,395,688	3,898	-	61,616
Mongolian Mortgage Corporation LLC (MIK)	18,344,787	10,809,499	1,829,508	427,121
Mongolian Banking Association Property Management (MBAPM)	507,999	6,367	33,382	22,229
Total	20,248,474	10,819,764	1,862,890	510,966

Fair value of net assets and goodwill arising on the acquisition of associates have not been disclosed separately in these financial statements, as management believes that carrying value of investments in associates is not material.

Based on information available, management believes that investments in associates are not impaired as of 31 December 2014 and 31 December 2013 and thus no provision for impairment is recognized in these financial statements. Information on related party balances is disclosed in Note 35.

13. SHORT TERM INVESTMENTS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Government treasury bills	151,536,629	63,017,544
Total short term investments	151,536,629	63,017,544

As of 31 December 2014 the Bank has invested in a number of government treasury bills issued by the Ministry of Finance. Government treasury bills at par value of MNT 163,000,000 thousand were purchased with discounts and have effective interest rates ranging from 9.39% to 16.78% p.a.

These investments are classified as loans and receivables and carried at amortized cost. They are neither past due nor impaired as of 31 December 2014. These investments are not collateralised.

Refer to Note 33 for the estimated fair value of financial assets carried at amortised cost. Currency, interest rate and maturity analysis of short term investments are disclosed in Note 30.

14. LONG TERM INVESTMENTS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Government bonds	270,275,863	185,291,673
Total long term investments	270,275,863	185,291,673

As of 31 December 2014 the Bank has invested in a number of government bonds issued by the Ministry of Finance. Government bonds at par value of MNT 266,033,000 thousand were purchased with coupon ranging from 9.75% to 18.00% p.a.

These investments are classified as loans and receivables and carried at amortized cost. They are neither past due nor impaired as of 31 December 2014. These investments are not collateralised. Refer to Note 33 for the estimated fair value of long term investments. Currency, interest rate and maturity analysis of long term investments are disclosed in Note 30.

15. INVESTMENT SECURITIES HELD TO MATURITY

In thousands of Mongolian Tugriks	2014	2013
Mortgage Backed Securities	22,724,954	14,878,420
Total investment securities held to maturity	22,724,954	14,878,420

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2014 and 31 December 2013 is as follows:

In thousands of Mongolian Tugriks	2014	2013
Neither past due nor impaired - Unrated	22,724,954	14,878,420
Total investment securities held to maturity	22,724,954	14,878,420

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status.

The bond represents a Junior residential mortgage-backed securities (RMBS) obtained from Mongolian Mortgage Corporation LLC (MIK-SPC) securitisation transactions as disclosed in Notes 4 and 11. 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).

16. INTANGIBLE ASSETS

In thousands of Mongolian Tugriks	Note	Intangible assets	Construction in progress and assets under development	Total
Cost at 1 January 2013		10,217,022	176,815	10,393,837
Accumulated amortization		(6,112,242)	-	(6,112,242)
Carrying amount at 1 January 2013		4,104,780	176,815	4,281,595
Additions		1,583,098	4,302,356	5,885,454
Transfers		2,794,950	(2,794,950)	-
Amortization charge	28	(2,085,146)	-	(2,085,146)
Write-offs at cost		(324,464)	-	(324,464)
Write-offs accumulated depreciation		324,464	-	324,464
Carrying amount at 31 December 2013		6,397,682	1,684,221	8,081,903
Cost at 31 December 2013		14,270,606	1,684,221	15,954,827
Accumulated amortization		(7,872,924)	-	(7,872,924)
Carrying amount at 31 December 2013		6,397,682	1,684,221	8,081,903
Additions		613,257	4,578,835	5,192,092
Transfers		3,433,109	(3,433,109)	-
Amortization charge	28	(3,948,591)	-	(3,948,591)
Write-offs at cost		(27,132)	-	(27,132)
Write-offs accumulated depreciation		27,132	-	27,132
Carrying amount at 31 December 2014		6,495,457	2,829,947	9,325,404
Cost at 31 December 2014		18,289,840	2,829,947	21,119,787
Accumulated amortization		(11,794,383)	-	(11,794,383)
Carrying amount at 31 December 2014		6,495,457	2,829,947	9,325,404

Intangible assets mostly relate to the Bank's core banking system and software licenses.

17. PROPERTY AND EQUIPMENT

	Note	Premises	Furniture, office equipment and vehicles	Computers and equipments	Construction in progress and assets under development	Total property and equipment
In thousands of Mongolian Tugriks						
Cost at 1 January 2013		44,029,004	17,883,279	30,198,667	4,618,008	96,728,958
Accumulated depreciation		(1,179,275)	(5,621,574)	(20,103,075)	-	(26,903,924)
Carrying amount at 1 January 2013		42,849,729	12,261,705	10,095,592	4,618,008	69,825,034
Additions		68,840	83,667	998,981	27,889,392	29,040,880
Transfers at cost		12,504,129	3,998,459	10,971,146	(27,473,734)	-
Disposals at cost		(184,351)	(652,167)	(405,652)	-	(1,242,170)
Disposals accumulated depreciation		36,278	337,868	403,242	-	777,388
Write-offs at cost		(8,073)	(476,825)	(3,024,787)	(44,636)	(3,554,321)
Write-offs accumulated depreciation		449	351,370	2,993,934	-	3,345,753
Depreciation charge	28	(1,341,514)	(2,011,499)	(5,140,780)	-	(8,493,793)
Revaluation		6,708,830	-	-	-	6,708,830
Reversal of accumulated depreciation		367,521	-	-	-	367,521
Carrying amount at 31 December 2013		61,001,838	13,892,578	16,891,676	4,989,030	96,775,122
Cost at 1 January 2014		63,118,379	20,836,413	38,738,355	4,989,030	127,682,177
Accumulated depreciation		(2,116,541)	(6,943,835)	(21,846,679)	-	(30,907,055)
Carrying amount at 1 January 2014		61,001,838	13,892,578	16,891,676	4,989,030	96,775,122
Additions		252,976	75,969	1,181,171	27,498,578	29,008,694
Transfers at cost		10,671,489	5,746,101	10,278,042	(26,695,632)	-
Disposals at cost		(449,466)	(560,921)	(115,840)	(452,369)	(1,578,596)
Disposals accumulated depreciation		93,769	342,655	99,495	-	535,919
Write-offs at cost		(13,960)	(414,319)	(3,974,121)	(47,496)	(4,449,896)
Write-offs accumulated depreciation		3,159	332,316	3,936,522	-	4,271,997
Depreciation charge	28	(1,719,700)	(2,410,003)	(8,091,816)	-	(12,221,519)
Carrying amount at 31 December 2014		69,840,105	17,004,376	20,205,129	5,292,111	112,341,721
Cost at 31 December 2014		73,579,418	25,683,243	46,107,607	5,292,111	150,662,379
Accumulated depreciation		(3,739,313)	(8,678,867)	(25,902,478)	-	(38,320,658)
Carrying amount at 31 December 2014		69,840,105	17,004,376	20,205,129	5,292,111	112,341,721

The Bank's head office in Ulaanbaatar has been revalued to fair value as at 30 June 2013. The valuation was carried out by an independent appraiser, who holds a recognised and relevant professional qualification. The

basis used for the appraisal was market value. As a result of this valuation, management has concluded that fair value of this building is higher than its carrying value as of 30 June 2013, and therefore the value of this building was increased by MNT 7,076,351 thousand through an increase in the revaluation reserve as of 30 June 2013. No additional revaluation was booked as of 31 December 2014. Based on management's assessment it was considered that the value of other buildings in Ulaanbaatar, and other urban and rural areas did not change significantly since last valuation. For management's judgments refer to Note 4.

At 31 December 2014 the carrying amount of premises would have been MNT 48,628,805 thousand (2013: MNT 39,239,397 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	69,840,104	61,001,838
Revaluation reserve presented in equity	(20,583,600)	(21,211,299)
Realised revaluation reserve – transfer to retained earnings	(627,699)	(551,142)
Premises at cost less accumulated depreciation	48,628,805	39,239,397

18. OTHER ASSETS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Other financial assets:		
Receivables on cash and settlements services	2,845,764	1,854,257
Financial derivatives	28,716,537	4,068,300
Receivables from individuals	523,880	448,914
Investment Mongolia Opportunities Fund I L.P	1,276,432	651,266
Receivables from companies	1,004,419	753,286
Other financial assets	355,183	46,405
Less: provision for impairment	(498,148)	(631,758)
Total other financial assets	34,224,067	7,190,670
Other non-financial assets:		
Prepayments for employees benefits	24,516,195	19,930,008
Office materials and supplies	2,809,691	2,052,474
Prepayments for maintenance of buildings	777,072	857,745
Reposessed collaterals	435,655	455,620
Prepayments for services	934,292	868,141
Prepayments for rent	185,680	211,690
Prepayments for employees	45,599	44,168
Other prepayments	7,700	6,349
Other non-financial assets	62,548	43,392
Less: provision for reposessed collateral	(435,655)	(398,470)
Total other non-financial assets	29,338,777	24,071,117

As of 31 December 2014 the fair value of financial derivatives is MNT 28,716,537 thousand and it is included in Other financial assets (31 December 2013: MNT 4,068,300 thousand). Gains less losses on financial derivatives recognized in profit or loss account in the amount of MNT 10,098,749 thousand consist of changes in fair value of derivatives of MNT 24,648,237 thousand and unrealized foreign exchange translation losses on borrowings used for financing long-term swaps in the amount of MNT 14,549,488 thousand (Note 3).

The Bank is committed to invest USD 1,000 thousand to Mongolia Opportunities I L.P. and during 2014 the Bank has increased its investment by USD 279,754 and EUR 2,840. This equity investment is classified as an available for sale financial asset and represents an unquoted security carried at cost, as this security is not actively traded and no market information is available for determining its fair value. The Bank's management believes that its fair value approximates its cost, taking into consideration that the investment was recently made and that no significant changes in the fair value of the investment are expected. Additional information on the fund is presented within the Note 32.

The Bank is providing loans to its employees at preferential rates. 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 in the amount of MNT 24,516,195 thousand as of 31 December 2014 (2013: MNT 19,930,008 thousand).

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. Based on internal policy on repossessed collateral, the Bank provided 100% provision on these assets. The Bank believes that recoverable amount from repossessed collateral as of 31 December 2014 is not material.

Movements in the provision for impairment of other assets during 2014 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivables from individuals	Receivables from companies	Other financial assets	Total other financial assets	Repos-sessed collate-ral	Total other assets
Provision for impairment at 1 January 2014	150	433,910	151,293	46,405	631,758	398,470	1,030,228
(Recovery)/charge of provision for impairment during the year	(150)	(38,254)	(340)	41,015	2,271	37,185	39,456
Amounts written off during the year as uncollectible	-	(94,881)	(39,000)	(2,000)	(135,881)	-	(135,881)
Provision for impairment at 31 December 2014	-	300,775	111,953	85,420	498,148	435,655	933,803

18. Other assets (Continued)

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

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivables from individuals	Receivables from companies	Other financial assets	Total other financial assets	Repos- sessed collateral	Total other assets
Provision for impairment at 1 January 2013	1,533	332,951	183,003	46,405	563,892	543,989	1,107,881
(Recovery)/charge of provision for impairment during the year	-	137,244	(31,710)	-	105,534	(145,519)	(39,985)
Amounts written off during the year as uncollectible	(1,383)	(36,285)	-	-	(37,668)	-	(37,668)
Provision for impairment at 31 December 2013	150	433,910	151,293	46,405	631,758	398,470	1,030,228

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	Financial Derivatives	Receivables from individuals	Investment Mongolia opportune- ties Fund I L.P	Receivables from companies	Other financial assets	Total Financial Assets
Neither past due nor impaired							
- Standard	2,845,764	28,716,537	223,106	1,276,432	892,466	269,762	34,224,067
Total neither past due nor impaired	2,845,764	28,716,537	223,106	1,276,432	892,466	269,762	34,224,067
Past due but not impaired							
- less than 30 days overdue	-	-	-	-	-	-	-
- 31 to 90 days overdue	-	-	-	-	-	-	-
Total past due but not impaired	-	-	-	-	-	-	-
Impaired							
- 91 to 180 days overdue	-	-	-	-	-	41,016	41,016
- 181 to 360 days overdue	-	-	560	-	-	-	560
- over 360 days overdue	-	-	300,214	-	111,953	44,405	456,572
Total impaired	-	-	300,774	-	111,953	85,421	498,148
Less impairment provision	-	-	(300,774)	-	(111,953)	(85,421)	(498,148)
Total other financial assets	2,845,764	28,716,537	223,106	1,276,432	892,466	269,762	34,224,067

18. Other assets (Continued)

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	Financial Derivatives	Receivables from individuals	Investment Mongolia opportunities Fund I L.P	Receivables from companies	Other financial assets	Total Financial Assets
Neither past due nor impaired - Standard	1,854,107	4,068,300	15,004	651,266	601,993	-	7,190,670
Total neither past due nor impaired	1,854,107	4,068,300	15,004	651,266	601,993	-	7,190,670
Past due but not impaired - less than 30 days overdue	-	-	-	-	-	-	-
- 31 to 90 days overdue	-	-	179,557	-	-	-	179,557
Total past due but not impaired	-	-	179,557	-	-	-	179,557
Impaired - 91 to 180 days overdue	-	-	14,586	-	-	-	14,586
- 181 to 360 days overdue	-	-	90	-	-	-	90
- over 360 days overdue	150	-	239,677	-	151,293	46,405	437,525
Total impaired	150	-	254,353	-	151,293	46,405	452,201
Less impairment provision	(150)	-	(433,910)	-	(151,293)	(46,405)	(631,758)
Total other financial assets	1,854,107	4,068,300	15,004	651,266	601,993	-	7,190,670

All neither past due nor impaired other financial assets as of 31 December 2014 and 31 December 2013 are classified as standard in accordance with the provisioning guidelines of the Bank of Mongolia (Note 30). Related customers are not rated. However, management believes that the quality of these receivables is adequate, given that creditworthiness and reputation of potential customers is thoroughly assessed. The Bank had no renegotiated (restructured) other financial assets as of 31 December 2014 and 31 December 2013.

The primary factors that the Bank considers in determining whether other financial assets are impaired are their overdue status. As a result, the Bank presents above an ageing analysis of receivables that are determined to be impaired.

Refer to Note 33 for the disclosure of the fair value of each class of other financial assets.

Most of financial assets are of short-term nature. For detailed analysis of maturity and currency refer to Note 30. Most of non-financial assets (prepayments) are expected to be recovered less than twelve months after year end.

18. Other assets (Continued)

Derivatives. 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 Bank. 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.

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	2014	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	31,156,020	10,353,980
- Financial liabilities at fair value through profit or loss	(2,439,483)	(6,285,680)
Financial assets at fair value through profit or loss, net	28,716,537	4,068,300

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 (+)	401,245,668	87,367,136
- USD payable on settlement (-)	(21,710,575)	(49,853,527)
- MNT receivable on settlement (+)	35,385,211	51,008,136
- MNT payable on settlement (-)	(370,463,767)	(78,611,788)
- Other currencies receivable on settlement (+)	-	1,541,581
- Other currencies payable on settlement (-)	(15,740,000)	(7,383,238)
Net fair value of foreign exchange forwards and swaps	28,716,537	4,068,300

The amounts of receivables and payables on the settlement related to long-term swaps, presented in the above table, represent amounts discounted for the time value of money, in accordance with the requirements of valuation methodology. These amounts differ from the amounts presented in foreign currency exchange rate risk exposure disclosed in Note 30, which present undiscounted amounts of receivables and payables on settlement of derivatives.

19. DUE TO OTHER BANKS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Correspondent accounts and overnight placements of other banks	13,441,623	6,184,991
Sale and repurchase agreements with securities with other banks	195,000,000	177,540,811
Short-term placements of other banks	395,508,107	318,297,598
Long-term placements of other banks	35,000	7,938,922
Total due to other banks	603,984,730	509,962,322

At 31 December 2014 and 31 December 2013 due to other banks included correspondent accounts, short-term, long-term placements with Mongolian and foreign banks and sale and repurchase agreement.

The increase in the account mainly relates to short term deposits obtained from the State Bank in total amount of MNT 100,000,000 thousand with interest rate 12.5% p.a., and original maturity 7 days.

At 31 December 2014 short term placement relates to deposits from local banks and foreign banks with interest rates between 2%-15.3% p.a. and original maturity from 6 to 364 days.

At 31 December 2014 long-term placement relates to deposits from a local bank in total amount MNT 35,000 thousand with an interest rate of 10.0% p.a., and original maturity 769.

As of 31 December 2014, sale and repurchase agreements relate to the placements from local banks, bearing interest rate 12.0% p.a. respectively, with original maturity 5 days. These placements are fully collateralized by the Bank of Mongolia treasury bills, disclosed in Note 7 and Note 32.

Refer to Note 33 for the disclosure of the fair value of each class of due to other banks. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 30.

20. CUSTOMER ACCOUNTS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
State and public organizations		
- Current/settlement accounts	130,160,535	173,526,462
- Demand (savings) deposits	793,846	142,413
- Term deposits	25,686,215	24,824,782
Legal entities		
- Current/settlement accounts	412,959,380	457,115,193
- Demand (savings) deposits	27,568,900	20,916,173
- Term deposits	174,445,755	325,128,817
Individuals		
- Current/demand accounts	204,502,415	197,839,125
- Demand (savings) deposits	584,506,605	581,340,696
- Term deposits	1,184,126,452	992,891,755
Total customer accounts	2,744,750,103	2,773,725,416

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 422,514,915 thousand (31 December 2013: MNT 599,040,956 thousand) or 15.4% of total customer accounts (31 December 2013: 21.6%).

At 31 December 2014 included in customer accounts are deposits of MNT 14,213,261 thousand (31 December 2013: MNT 10,436,931 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 32.

Refer to Note 33 for the disclosure of fair value of customer accounts. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of customer accounts are disclosed in Note 30.

21. OTHER BORROWED FUNDS

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Borrowed funds from foreign financial institutions		
Netherland Development Finance Company (FMO) and Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)	58,262,302	61,078,199
Asian Development Bank	75,233,569	-
responsAbility SICAV (Lux) and Credit Suisse Microfinance Fund Management Company	75,123,360	55,014,908
International Financial Corporation 1 (IFC)	64,529,587	38,948,680
European Bank for Reconstruction and Development 1 (EBRD)	55,112,075	41,325,282
OFID	37,976,216	-
International Financial Corporation 2	33,433,865	32,905,785
European Bank for Reconstruction and Development 2	31,931,398	27,887,015
International Investment Bank (IIB)	19,047,794	9,553,573
MICROFINANCE ENCHANCEMENT FACILITY SA,SICAV-SIF(BLUE ORCHARD	18,704,423	-
BlueOrchard Pool	17,775,449	25,802,833
MICRO-SMALL&MEDIUM ENTERPRICES BONDS SA	17,021,226	-
Netherland Development Finance Company (FMO)	14,324,847	16,669,254
Sawada Holdings Co.,LTD	13,229,631	-
ROSEVROBANK	11,745,153	-
VDK Spaarbank N.V	5,645,506	4,931,237
Total borrowed funds from foreign financial institutions	549,096,401	314,116,766
Borrowed funds from government organizations		
Bank of Mongolia		
- SIFS, FPS, Construction sector support and apartment price stabilization, and mortgage program	345,972,045	512,156,930
- Government construction program	-	75,882,307
- Term Loan III	147,250	136,770
Ministry of Food, Agriculture and Light Industry		
- SME Investment Fund	30,544,920	36,613,214
- SME Development Fund	7,087,517	10,524,256
Ministry of Finance		
- Two step loan project for SME development and environmental protection financed by JICA	28,060,443	27,101,903
- Agriculture and Rural Development Project financed by ADB	1,496,529	2,732,686
- Private Enterprise Development Fund financed by World bank	363,348	723,213
- Rural Poverty Reduction Program financed by IFAD	720,600	752,879
Government Organization of Aimags		
- SME loan	5,688,047	4,457,369
Other		
- Development Bank - Programm of supporting export	24,547,929	-
- World Bank - Microfinance Development Fund	3,519,139	2,875,835
- United Nation Development program - Enterprise Mongolia program	168,337	166,186
Total borrowed funds from government organizations	448,316,104	674,123,548
Trade finance	80,509,563	27,884,409
Total borrowed funds	1,077,922,068	1,016,124,723

21. Other Borrowed Funds (Continued)

All government organizations' borrowings stated above are related to the Government of Mongolia unless otherwise stated.

The terms of the main unsecured borrowing agreements are provided below. The loans have LIBOR based variable interest rate and fixed interest rate. The terms of the main borrowing agreements are provided in below table.

Borrowed funds from foreign financial institutions

Lenders	Agreement date	Agreement amount in original currency	Currency	Principal outstanding in original currency as at Dec 31, 2014	Undrawn amount* in original currency	Interest rate (Dec 31, 2014)	Interest rate (Dec 31, 2013)	Maturity date
Senior loans								
FMO and DEG	2012/05/14	37,000,000	USD	30,833,333	-	4.58%	4.61%	2017/05/15
FMO	2009/12/15	15,000,000	USD	7,500,000	-	5.74%	5.37%	2017/10/15
EBRD 1	2012/05/15	25,000,000	USD	12,500,000	-	4.58%	4.61%	2017/05/15
EBRD 2	2013/08/01	17,000,000	USD	8,833,333	-	5.65%	5.65%	2017/05/15
EBRD 3	2014/07/31	15,072,000,000	MNT	17,000,000	-	5.33%	5.35%	2018/11/25
	2013/10/17	10,000,000	USD	15,072,000,000	-	11.31%	-	2017/08/12
IFC 1	2013/10/17	10,000,000	USD	10,000,000	-	6.73%	6.64%	2018/09/15
	2013/10/17	21,000,000	USD	10,000,000	-	6.33%	6.24%	2016/09/15
IFC 2	2013/03/26	20,000,000	USD	14,000,000	-	5.83%	5.74%	2015/09/15
IIB	2013/10/17	10,000,000	USD	17,777,778	-	4.94%	5.02%	2018/12/15
	2013/02/04	5,000,000	USD	10,000,000	-	6.73%	6.64%	2018/09/15
BlueOrchard	2013/06/11	8,000,000	USD	4,000,000	-	5.20%	5.20%	2016/02/08
	2014/12/16	20,000,000	USD	5,333,333	-	5.65%	5.65%	2016/06/13
VDK Spaarbank	2013/11/25	3,000,000	USD	10,000,000	10,000,000	6.15%	-	2016/12/23
	2013/11/25	3,000,000	USD	3,000,000	-	6.00%	6.00%	2016/12/11
OFID	2013/12/09	20,000,000	USD	20,000,000	-	4.83%	-	2017/02/28
Rosevrobank	2014/02/11	5,000,000	EUR	5,000,000	-	5.50%	-	2015/08/05
Micro,- small	2014/04/03	8,900,000	USD	8,900,000	-	5.80%	-	2017/03/07
ADB	2014/10/17	40,000,000	USD	40,000,000	-	6.39%	-	2019/04/17
Sawada	2014/12/24	7,000,000	USD	7,000,000	-	10.38%	-	2016/01/25
Promissory notes								
	2012/06/20	4,000,000	USD	4,000,000	-	5.25%	5.25%	2015/06/22
responsAbility	2012/11/20	5,000,000	USD	5,000,000	-	5.60%	5.60%	2015/11/20
SICAV (Lux) and Credit Suisse	2012/12/07	6,000,000	USD	6,000,000	-	5.60%	5.60%	2015/12/10
Microfinance Fund	2013/03/12	5,000,000	USD	5,000,000	-	5.60%	5.60%	2016/03/14
Management Company	2013/10/23	4,000,000	USD	4,000,000	-	6.10%	6.10%	2016/10/25
	2013/12/20	6,000,000	USD	6,000,000	-	5.80%	5.80%	2016/12/20
	2014/05/27	5,000,000	USD	5,000,000	-	6.10%	-	2017/06/11
Symbiotics	2014/07/27	3,701,000,000	MNT	3,701,000,000	-	10.50%	-	2017/01/29
Capital Gestion	2014/12/04	2,500,000	USD	2,500,000	-	4.60%	-	2015/12/15

*Borrowed funds from government organizations***Bank of Mongolia loans**

The funds obtained from the Bank of Mongolia comprise the following:

- (i) *Strategic Import Financing Schema (SIFS), Food Price Stabilization (FPS), and Construction sector support and apartment price stabilization, and mortgage programs.*

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. In the first quarter of 2013 the Bank amended the loan agreement with Bank of Mongolia under SIFS, sub-program to stabilize fuel retail price. For SIFS and FPS the loan bears 0.5%-0.89% interest rate per annum and are maturing on 26 October 2015, 31 July 2015 and 27 November 2015. The Bank then lends the funds to approved participants in the programs at the interest rate of 3.8%-4.5% p.a.

For Construction sector support and apartment price stabilization program the loan bears 2.5%-4% interest rate per annum and are payable on 5 January 2018 and 15 June 2015.

And the Bank then lends the funds to approved participants in the program at the interest rate of 5.5% p.a. Under the program agreements, the loan term is one to three years, depending on the sub-program.

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 mortgage program funding bears 4% p.a. interest rate and the Bank then makes mortgage loans at the interest rate of 8% p.a. The Bank approves all loan disbursements and bears the credit risk.

- (ii) *Government Construction Program*

On 13 May 2013 the Bank received funds in the amount of MNT 80 billion at interest rate of 7% p.a. from the Bank of Mongolia for issuance of construction loans with 18 months maturity under the program implemented by the Government. 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. Based on the terms of the program, the maturity of borrowing is 10 months (i.e. October 2014) in case these funds are used for issuing construction loans that meet criteria set by BOM. For management judgment please refer to Note 4.

- (iii) *Bank of Mongolia, Term Loan III*

The Bank entered into a loan agreement for USD 137,694 with the Bank of Mongolia in 2002 for the Bank's share of BANCs banking software purchased. No interest is due for the first five years; commencing 2007 the loan bears interest of 1% per annum. The loan is payable in thirty equal annual instalments, commencing December 2002. The loan matures in December 2031.

21. Other Borrowed Funds (Continued)

Ministry of Food, Agriculture and Light Industry

The funds obtained from the Ministry of Food, Agriculture and Light Industry comprise the following:

(i) Small Medium Enterprise Investment Fund

The Ministry of Food, Agriculture and Light Industry provides this funding from the "Special Purpose Fund" for the purpose of financing small and medium sized factories. The loan is repayable every quarter. The loan bears a 0.1% monitoring fee, which is payable every quarter.

(ii) Small Medium Enterprise Development Fund /Wool & Cashmere loan/

The Bank entered into a "Cooperation agreement on on-lending funding of Government bond" with Ministry of Food, Agriculture and Light Industry and Ministry of Finance on 10 October 2011. In line with this agreement, the Bank has disbursed term loans to national manufacturers who produce wool string and wool string products. The loan is repayable on 31 October 2016. The loan bears 0.05% interest per month, which is payable on a quarterly basis.

Ministry of Finance*(i) Two step loan project for SME development and environmental protection financed by JICA*

The Ministry of Finance, funded by JICA for its Two-Step Loan Project for Small and Medium Scale Enterprises Development and Environmental Protection project, provided this loan. In March 2006, JICA entered into an agreement with the Government of Mongolia. The Bank disbursed the proceeds of this loan to sub-borrowers. The Bank received two loans from these funds: the first loan bears interest at the average demand deposit rate for commercial banks with an effective interest rate of 3.0% (31 December 2013: 3.0%) per annum at the end of the reporting period; the second loan bears interest at a margin of 1% over six-month LIBOR for USD loans with an effective interest rate of 1.33% (31 December 2013: 1.4%) per annum.

(ii) Agriculture and Rural Development Project (ADB)

Agriculture and Rural Development project funded by Asian Development Bank provided this loan to finance the value chain development (VCD) subprojects of the top nationwide companies manufacturing products with export potential by using agricultural raw materials. The loan bears no interest. The loan is payable within 2 days after repayment by sub-borrowers. The loan is repayable on 5 January 2018.

(iii) Private Enterprise Development Fund

The Ministry of Finance, funded by the Private Enterprise Development Fund (World Bank), provided this loan to promote private and financial sector development and to strengthen the institutional capacity of the banking sector. The loan bears interest at a margin of 1% over six-month LIBOR for USD loan with effective interest rate of 1.33% (31 December 2013: 1.41%). The loan in MNT bears interest at the average demand deposit rate for commercial banks with an effective interest rate of 5.95% (31 December 2013: 7.2%) per annum. The loan is payable within six months after repayment by sub-borrowers.

21. Other Borrowed Funds (Continued)

(iv) Rural Poverty Reduction Program (International Federations Agricultural Development)

The Ministry of Finance, funded by the Rural Poverty Fund (IFAD), provides this loan with the aim of decreasing poverty in the rural areas. The loan bears interest at six month LIBOR rate. On disbursements after 25 August 2010, the Bank shall pay a fixed interest rate of 1% per annum. Repayment of the loan is in twenty-two equal semi-annual installments on February and August of the year commencing 1 February 2011. The final repayment date is 1 August 2021.

Government Organizations of Aimags (provincial centers)

The funds obtained from the Government organizations of Aimags comprising the following:

- (i)* The Labor and Welfare Service offices at 13 aimags and 1 district provided this fund for the purpose of supporting job creation. The loans are made available for unemployed individuals, herders and self-employed individuals who wish to run a family-based business or a cooperative, and entities. The loan bears no interest and is repayable on 31 December 2015.
- (ii)* A loan obtained from the Local Government Office of Orkhon aimag to support local small and middle sized businesses amounts to MNT 200,000,000 and bears no interest. The loan was obtained in 2010 and was due to be paid fully on 29 April 2014. This agreement has been extended until 25 September 2016.
- (iii)* Khan Bank has concluded cooperation agreement with Khuvsgul province governors' office on 26 September 2011 and on 4 July 2012 and on 28 May 2014 to lend MNT 400,000,000 with the maturity on 25 April 2016 and MNT 155,000,000 with the maturity on 6 November 2016 and MNT 290,996,570 with the maturity on 28 May 2016 to local SME.

Other*(i) Development Bank of Mongolia*

Commercial banks of Mongolia entered into Loan Agreements with Development Bank of Mongolia and Small and Medium Enterprises Fund on 15 August 2014 for an aggregate amount of MNT 100 billion to support export and to finance domestic manufacturing SME. As part of this agreement the Khan bank has received MNT 24 billion during 2014. The loan bears interest at rate of 5% p.a. with maturity of 5 years.

(i) Microfinance Development Fund

The International Development Association (World Bank) provided this local currency loan since 2003 to support the improvement of living standards in rural areas. The Bank currently disburses the proceeds of the loan to sub-borrowers in 19 (provinces) and one district (Bagakhangai). The Bank accepts the credit risk for these loans. The loan bears a fixed rate of interest of 6.5% (2013: 6.5%) per annum payable on a monthly basis. Principal payment commenced 9 months after date of disbursement.

21. Other Borrowed Funds (Continued)

(ii) United Nation Development Program - Enterprise Mongolia Program

On 23 August 2010, the Bank entered into a Grant Agreement with the United Nations Development Program (UNDP). UNDP provided funds of MNT 168,336,720 as guarantee funds for loans issued under the Enterprise Mongolia Project (Phase 2). On expiration of the Agreement by 31 December 2012, the Bank is entitled to the ownership of the provided funds if it will have fulfilled certain contractual criteria during the period of the Agreement.

On 20 March 2012, the maturity date of the agreement was extended to 31 December 2012. On 3 July 2013, the reference letter to release the funds from any obligation to repay was received from the UNDP.

The Bank bears credit risk on all of the loans issued to customers in the terms of each of the borrowings from state and government organisations received.

Trade Finance

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 80,509,563 thousand (31 December 2013: MNT 27,884,409 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.

The increase in the amounts as of 31 December 2014 are due to increased volume of this type of business, as well as due to signing of new agreement with an international financial institution.

Refer to Note 33 for the disclosure of fair value of other borrowed funds. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 30.

Most of the borrowing agreements stated above require compliance with certain financial and other covenants, which can be grouped in the following categories:

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

In case of non-compliance, the related borrowing would default i.e. the borrowing is immediately payable on demand. For this reason, quarterly monitoring of debt covenants is carried out by relevant departments and officers (Finance Control Department and Investment Banking Department, including Director of Finance, Credit Risk, Policy and Regulation Departments, including Credit Credit Officer etc.). In case of anticipated or noted non-compliance with certain covenants, appropriate action is taken by management, such as requesting a waiver letter or negotiating amendment agreement with permanently changed limits (ratios).

There were no breaches of covenants that would require immediate repayment of the borrowing as of 31 December 2014 and 31 December 2013 i.e. the Bank has rights to make payments based on the original repayment schedule as of 31 December 2014 and 31 December 2013. For more information refer to Note 32.

22. OTHER LIABILITIES

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Other financial liabilities:		
Liabilities for settlements of transactions	8,367,298	6,485,613
Payables to companies	966,926	2,197,866
Payables for services	1,277,055	534,353
Cultivation support fund	5,702	61,829
Payables to individuals	4,308	53,368
Other	1,778,166	2,009,836
Total other financial liabilities	12,399,455	11,342,865
Other non-financial liabilities:		
Payables to employees	9,320,668	8,186,533
Taxes payable other than on income	762,802	264,138
Total other non-financial liabilities	10,083,470	8,450,671

Liabilities for settlement transactions balance as of 31 December 2014 represents customer interbank transactions and payables to other banks related to ATM transactions, which were processed on the last working day. All settlement transactions were closed on the first working day in January 2015.

Included in payables to employees is the carrying amount of the liability relating to Share Appreciation Rights ("SARs") at 31 December 2014 amounting to MNT 559,265 thousand (31 December 2013: MNT 642,744 thousand). On 7 December 2006 and 12 March 2008, certain key management personnel of the Bank were

granted 30,000 SARs and 20,000 SARs respectively, which can only be settled in cash. The issue price of the two batches of SARs was MNT 3,680 and MNT 9,222, respectively. The SAR exercise price shall be the book value, diluted for any options issued, under IFRS of one ordinary share of the Bank in Mongolian Tugrik as of the last day of the financial quarter preceding the exercise date. These SARs vest over five years, with 20% of the SARs vesting at the end of each year from the date of grant. The contractual life of the SARs is ten years expiring on 6 December 2016 and 12 March 2018 respectively. The expected costs of this incentive are accrued over the vesting period. Until the liability is settled, the liability is remeasured at each reporting date with changes, if any, recognised in profit and loss.

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.

Refer to Note 33 for the disclosure of fair value of other financial liabilities. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of other financial liabilities are disclosed in Note 30.

23. SUBORDINATED DEBT

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Netherland Development Finance Company (FMO) and Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)	60,657,063	53,006,526
IFC Capitalization Fund, L.P. (IFC AMC)	76,188,826	16,056,292
International Finance Corporation (IFC)	37,848,038	33,166,308
H.I.S. Co. Ltd.	19,320,518	16,948,488
Netherland Development Finance Company (FMO)	19,196,999	16,707,240
Total subordinated debt	213,211,444	135,884,854

Lenders	Agreement date	Agreement amount (USD)	Outstanding amount 2014/12/31	Interest rate 2014/12/31	Interest rate 2013/12/31	Maturity date
FMO and DEG	2013/05/14	32,000,000	32,000,000	7.13%	7.16%	2017/08/16
IFC	2011/06/15	20,000,000	10,000,000	7.64%	7.65%	2017/06/15
IFC AMC	2013/10/08	40,000,000	40,000,000	7.64%	7.65%	2018/06/15
H.I.S. Co.Ltd.	2009/12/29	10,000,000	10,000,000	7.82%	7.85%	2019/04/15
FMO	2009/12/15	10,000,000	10,000,000	11.37%	11.37%	2015/01/15
				8.99%	9.11%	2015/01/15
Total subordinated debt		112,000,000	112,000,000			

Refer to Note 33 for the disclosure of fair value of other financial liabilities. Information on related party balances is disclosed in Note 35. Currency, interest rate and maturity analysis of other financial liabilities are disclosed in Note 30.

Some of subordinated loans agreements stated above require compliance with certain debt covenants, which are described in Note 21.

There were no breaches of covenants with regard to subordinated debt agreements as of 31 December 2014 and 31 December 2013. For more information on compliance with debt covenants, refer to Note 32.

24. SHARE CAPITAL

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Shares premium	Total
At 1 January 2013	6,326,040	13,198,012	14,140,923	27,338,935
Increase in share capital	-	19,797,018	-	19,797,018
At 31 December 2013	6,326,040	32,995,030	14,140,923	47,135,953
At 31 December 2014	6,326,040	32,995,030	14,140,923	47,135,953

The nominal registered amount of the Bank's issued share capital is MNT 32,995,030 thousand (2013: MNT 32,995,030 thousand). Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with the shareholders' resolution dated 27 September 2012, the Bank initiated the process of increasing par value (nominal value) of its ordinary shares from MNT 2,000 to MNT 5,000 through capitalization of retained earnings in the amount of MNT 19,797,018 thousand. The increase of share capital was registered with relevant authorities on April 2013.

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

In percentages	31 December 2014	31 December 2013
Sawada Holdings Co. Ltd.	41.3%	41.3%
Tavan Bogd Trade Co. Ltd.	23.0%	23.0%
Hulan D.	13.3%	13.3%
H.S. International (Asia) Ltd.	13.1%	13.1%
International Finance Corporation	9.3%	9.3%
Total ordinary shares	100.0%	100.0%

As of 31 December 2014 and 31 December 2013, the Bank was controlled by Sawada Holdings Co. Ltd directly through its shareholding and indirectly through shareholding of its 100% owned subsidiary H.S. International (Asia) Ltd. The following shareholders had the ability to significantly influence operating and financial decisions of the Bank through their shareholding and rights to be represented on the Board of Directors as of 31 December 2014:

- Tavan Bogd Trade Co. Ltd;
- International Finance Corporation;
- Hulan D.

The transactions with related parties are disclosed in Note 35.

25. INTEREST INCOME AND EXPENSE

In thousands of Mongolian Tugriks	2014	2013
Interest income		
Loans and advances to customers	472,361,288	375,766,732
Long term investments	30,235,550	3,081,127
Cash and cash equivalents	25,332,454	41,065,633
Short term investments	11,573,268	10,087,816
Due from other banks	4,592,528	3,654,094
Total interest income	544,095,088	433,655,402
Interest expense		
Customer accounts	209,080,881	179,180,360
Other borrowed funds	46,294,885	26,171,472
Due to other banks	30,564,104	24,553,625
Subordinated debt	16,732,580	9,622,502
Total interest expense	302,672,450	239,527,959
Net interest income	241,422,638	194,127,443

26. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of Mongolian Tugriks	2014	2013
Fee and commission income		
Commissions on operations with plastic cards	11,874,488	9,234,650
Commissions on settlement transactions	7,554,533	6,316,712
Commissions on mobile and internet-banking services provided	3,690,840	2,415,871
Commissions on documentary business and guarantees	2,755,949	2,718,227
Commissions on cash operations	1,337,480	1,423,373
Commissions on transfer payments	519,355	519,249
Other	1,818,756	1,179,552
Total fee and commission income	29,551,401	23,807,634
Fee and commission expense		
Commissions on operations with plastic cards	1,800,908	1,265,751
Commissions on settlement transactions	710,902	477,503
Commission expense on foreign exchange operations	298,508	429,202
Total fee and commission expense	2,810,318	2,172,456
Net fee and commission income	26,741,083	21,635,178

27. OTHER OPERATING INCOME

In thousands of Mongolian Tugriks	2014	2013
Gain on disposal of premises and equipment	84,322	342,513
Income from repayment of loans which were written off	426,069	516,812
Gain from earlier repayment of deposit to Bank of Mongolia	-	4,583,333
Other	721,871	1,427,490
Total other operating income	1,232,262	6,870,148

In the fourth quarter of 2013, the Bank of Mongolia requested earlier repayment of the deposits MNT 200,000 million (Note 4). As a result, according to the contract, an interest rate of 4% instead of 7% should be applied and therefore the Bank booked an additional gain of MNT 4,583,333 thousand as other operating income. For more details please refer to Note 4.

28. ADMINISTRATIVE AND OPERATING EXPENSES

In thousands of Mongolian Tugriks	Year ended 31 December 2014	Year ended 31 December 2013
Salary costs	66,895,964	57,540,510
Depreciation of property and equipment and amortization of intangible assets (Notes 16,17)	16,170,110	10,578,940
Equipment repair and maintenance expenses	7,983,310	5,709,587
Deposit guarantee fee	7,907,000	6,819,293
Rent	7,839,868	6,491,279
Social security contributions	6,856,205	5,906,825
Premises repair and maintenance expenses	5,105,599	4,287,454
Advertising and marketing services	4,068,460	3,882,579
Security services	2,659,799	2,261,965
Transportation	2,285,230	2,190,945
Office materials and supplies	2,255,027	1,951,939
Research expenses	2,226,316	1,250,674
Business trip expenses	1,912,401	1,660,169
Information and telecommunication services	1,321,361	1,109,272
Professional services	994,884	1,012,826
Training expenses	969,672	626,377
Events	740,533	693,935
Insurance	622,646	485,708
Taxes other than on income	571,525	433,194
Other	3,047,354	1,963,468
Total administrative and other operating expenses	142,433,264	116,856,939

Included in salary costs are the amounts of benefits received by the employees as a result of obtaining loans from the Bank at below market interest rates of MNT 2,570,388 thousand for the period ended 31 December 2014 (period ended 31 December 2013: MNT 2,091,500 thousand). For more information, please refer to Note 18.

Included in social security contributions for the period ended 31 December 2014 are pension contributions of MNT 4,363,040 thousand (period ended 31 December 2013: MNT 3,758,889 thousand).

Fees paid to the Board of Directors for the period ended 31 December 2014 in the amount of MNT 719,137 thousand (the period ended 31 December 2013: MNT 710,702 thousand) are included in administrative and other expenses and are further disclosed in Note 35.

29. INCOME TAXES

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

In thousands of Mongolian Tugriks	2014	2013
Current income tax charge	18,187,437	25,459,435
Deferred income tax charge	2,850,563	3,275
Income tax expense for the year	21,038,000	25,462,710

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 (2013: MNT 3 billion) in accordance with Mongolian tax legislation.

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Mongolian Tugriks	2014	2013
Profit before tax	129,062,259	122,201,336
Theoretical tax charge at statutory rate (2014: 25%; 2013: 25%)	32,265,565	30,550,334
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of income subject to lower rate	(450,000)	(450,000)
- Income which is exempt from taxation	(18,388)	(132,288)
- Non-deductible expenses	325,321	426,474
- Income on government securities exempt from taxation	(11,084,498)	(4,852,133)
- Other	-	(79,677)
Income tax expense for the year	21,038,000	25,462,710

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2013: 25%).

In thousands of Mongolian Tugriks	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	1,380,423	691,199	-	2,071,622
Treasury stock	(5,722,787)	-	-	(5,722,787)
Fair value of swaps, net of related borrowings	-	(3,541,762)	-	(3,541,762)
Net deferred tax liability	(4,342,364)	(2,850,563)	-	(7,192,927)

In thousands of Mongolian Tugriks	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	1,383,698	(3,275)	-	1,380,423
Treasury stock	(5,722,787)	-	-	(5,722,787)
Net deferred tax liability	(4,339,089)	(3,275)	-	(4,342,364)

Deferred tax liability recognized as of 31 December 2014 amounted to MNT 7,192,927 thousand (31 December 2013: 4,342,364) and relates to deferred tax liability arising from repurchase of the Bank's shares from minority shareholders of MNT 5,722,787 thousand (31 December 2013: MNT 5,722,787 thousand), deferred tax asset arising from impairment provision on performing loans of MNT 2,071,622 thousand (31 December 2013: MNT 1,380,423 thousand) and deferred tax liability arising from changes in fair value of long-term and short-term financial derivatives, net of deferred tax asset on unrealised foreign exchange differences on borrowings used for financing long-term swaps, in the amount of MNT 3,541,762 thousand (2014: -). Out of this amount, net deferred tax liability related to short-term derivatives amounts to MNT 345,627 thousand, while net deferred tax liability to long-term swaps amounts to MNT 3,196,135 thousand, which consists of deferred tax liability on changes in fair value of swaps of MNT 6,833,507 thousand and deferred tax asset related to borrowings used for financing these swaps of MNT 3,637,372 thousand. The Bank has not recognised deferred tax liability related to fair value of swaps as of 31 December 2013 and 31 December 2012, since related gains and loss were already treated as taxable income and deductible expenses in previous periods.

Refer to Note 3 for the accounting policy related to accounting and tax treatment and presentation of changes in fair value of financial derivatives and unrealized foreign exchange translation differences from borrowings specifically used for financing long-term swaps. Also, please refer to Note 4 for the detailed description of related management's judgments in applying accounting policies.

The Bank of Mongolia amended the "Regulations on Asset Classification and Provisioning" on 26 August 2014. As a result of the amendment, all loans issued after the effective date shall be provided for at 1% provision for the purposes of reporting impairment provision to the Bank of Mongolia (i.e. central bank). According to tax regulation on corporate income tax any impairment provision charges for the performing loans represent non-deductible expenses for the period. As a result, this change in regulations has resulted in increase in the deferred tax asset as of 31 December 2014. Management's judgments related to recognition and recoverability of deferred tax asset on impairment losses on loans and advances to customers are outlined in Note 4.

As disclosed in the annual financial statements of the Bank for the year ended 31 December 2012, the Bank's management has decided to use the purchase price of treasury shares as a deduction in its corporate income tax return at the time of purchase of treasury stock from minority shareholders in 2012. Mongolian tax regulations state that purchase price of treasury stock represents deductible expense in corporate income tax. Mongolian tax authorities have accepted such treatment and the Bank's corporate income tax return for 2012 in the second quarter of 2013. Given that use of this amount as a deduction at the time of sale of these treasury shares in the future is not certain, in case deduction is used at the time of purchase, a deferred tax liability has been recognised as at 31 December 2014 and 31 December 2013.

30. FINANCIAL RISK MANAGEMENT

The Bank's risk management function includes financial risk (including credit risk, market risk and liquidity risk), operational risk and reputational risk. Market risk includes currency risk, interest rate risk and other price 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 risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risks.

Risk is inherent in the Bank's activities and managed through risk identification, measurement, limits and a continuing process of analysis and review. This process of risk management is critical to the Bank's sound and profitable performance and all of the Bank's directors are accountable for the management of risks related to their responsibilities.

The Board of Directors has ultimate responsibility for the overseeing overall risk management of the Bank. It receives a report on the performance of the Bank at monthly Board meetings, while the Board Audit Committee is specifically responsible for monitoring the activities of the Internal Audit Department. The Risk Management Committee of the Board of Directors is responsible for assisting the Board in fulfilling its oversight responsibilities related to the management of credit, market, liquidity, operational, compliance, reputational and other risks of the Bank. Further, there are various committees and departments responsible for managing and monitoring risks, which are briefly outlined below.

The Executive Management Committee consists of all the executive management of the Bank and holds weekly meetings to discuss and decide the Bank's strategic issues and planning required for sustainable

30. Financial Risk Management (Continued)

business management. The Management Committee consists of all management and holds weekly meetings to discuss all aspects of the Bank's operations and encourages enhanced communication between the directors.

The Risk Committee is responsible for implementation of the Bank's overall risk management policy, monitoring high level major risks throughout the Bank, and developing necessary actions and strategies related to managing the risks. The Risk Committee is chaired by the Chief Executive Officer (hereinafter referred as "CEO") and holds regular monthly meetings. The Assets and Liabilities Committee (hereinafter referred as "ALCO") is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed. The purpose of ALCO is to set up the asset and liability structure of the Bank's balance sheet conducive for sustainable growth of the Bank, its profitability and liquidity through comprehensive management of the Bank's assets and liabilities and monitoring of the foreign currency, interest rate and other market risks. ALCO is chaired by the First Deputy CEO.

The Bank's Credit Risk Committee, Head Office Credit Committee (hereinafter referred as "HOCC"), and Credit Risk Department (hereinafter referred as "CRD") are responsible for managing the Bank's credit risk, approve the Bank's credit policy, procedures, and new credit products. The structure of Credit Risk Committee, HOCC and their responsibilities, as well as responsibilities of CRD are described in details within the section 'Credit risk'.

The IT Steering Committee is responsible for ensuring that the Bank's business and IT strategies and business plans are aligned, to identify needs and priorities for IT systems for MIS, new and existing product enhancements, and to identify and resolve problems in the business related to IT. The IT Steering Committee is chaired by the Director of Information Technology.

The Business and Product Development Committee is responsible for planning new business and product development of the Bank, assessing the risk and return associated with new business and products, and approving product procedures. The Business and Product Development Committee is chaired by the Deputy CEO, Retail Bank.

Risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of procedures and compliance with them. Internal Audit presents the results of all audits to the executive management and reports its findings and recommendations to the Board Audit Committee.

The Internal Audit Department consists of two departments: Off-Site Audit and On-Site Audit. It has 51 employees: 1 director, 2 department heads, 5 senior auditors in charge of regions, 7 senior auditors, 31 auditors, 1 assistant auditor, 3 IT auditors and 1 translator. The Director directly reports to the Board Audit Committee and has quarterly meetings with the Committee. Internal Audit performs a full scale audit of each business and support unit, branch and sub-branch per year according to an annual audit plan, which is developed by the department and approved by the Board Audit Committee. In addition to the annual audit plan, the department performs unplanned audits when needed.

30. Financial Risk Management (Continued)

All rural sub-branches report to an aimag (provincial centre) branch, and the sub-branches in Ulaanbaatar city report to a branch, located in the same administrative district. A branch is responsible for supervising the sub-branches, making regular visits to the sub-branches under their control to review compliance with the Bank's policies and procedures and to assess the quality of their operations and loans. Additionally each branch has a Branch Risk Committee, which carries out the risk management through identifying, monitoring, preventing and mitigating the operational and credit risks at the branch and the relevant sub-branches.

Apart from the above committees and departments, every support unit in the head office participates in risk management process by managing its top risks and reporting on the risk level to the respective director at least once per month. Operational and Market Risk Department monitors implementation of the risk management actions determined by the Risk Committee.

Monitoring and controlling risks are primarily performed based on limits established by the relevant committees of the Bank. These limits reflect the business strategy and market environment of the Bank as well as level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across all risk types and activities. As part of its overall risk management, the Bank uses basic sensitivity analysis to manage exposures resulting from possible changes in interest rates, foreign currencies and equity risks. The Bank's Risk Committee uses a Risk Dashboard as a key tool to monitor risks and implement risk management processes such as defining, measuring, mitigating and controlling the main risks of the Bank. The Risk Dashboard is updated and managed regularly on a monthly basis to see what kind of risks the Bank faces and identify the risk level to assist the decision making process.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 32. The credit risk is mitigated by appropriate credit structure, collateral and other credit enhancements as disclosed in Note 10.

The Bank monitors credit risk based on the following sub-categories: borrower, sector, portfolio, individual loan, collateral and guarantees and force majeure risks.

Credit Risk Committee holds monthly meetings to discuss loan portfolio quality indicators, credit limits, loan portfolio growth trends, top 30 past due and non-performing loans, adequacy of loan loss reserves. The Credit Risk Committee is chaired by the Chief Credit Officer.

ALCO determines total growth target of the Bank's loan portfolio and minimum base lending rates, while business units are responsible for execution of these targets. Credit Risk Department (CRD) and Credit, Policy and Regulation Department (CPRD) control the performance of business units, and regulate an overall loan policy and procedures.

30. Financial Risk Management (Continued)

The Bank's Credit Committees structure was established to manage the Bank's credit risk at various levels. The Bank has four types of credit committees for loan approval and monitoring:

1. Head Office Credit Committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures over MNT 500 million. Also, the current procedure provides for credit exposures over certain limits to be submitted and approved by the Board of Directors. Head Office Credit Committee sets and approves lending limits of the rural Branch Credit Committees and Ulaanbaatar city sub-branch Credit Committees by taking into account factors such as size of the local market, work experience of Branch Credit Committee members, assessment of the branch loan portfolio quality and credit risk monitoring practices. These lending limits are reviewed regularly and revised as necessary. Credit Risk Committee has been held every month since October, 2013. Discussions on which measure is taken on loan portfolio growth and fall, credit quality indications, top 30 past due loans and LLP are made.
2. Head Office Sub- Credit Committee currently approves credit exposures up to MNT 500 million, which are above approval limits of the branches.
3. Rural Branch Credit Committee approves loan proposals within their approved lending limits. Also, it determines lending limits of its sub-branches and responsible for the branch loan portfolio risk management.
4. Credit Committees of other sub-branches and business units approve loan proposals within their lending limits and responsible for ensuring their loan portfolio quality.

Credit Risk Department (hereinafter referred as "CRD") is responsible for mitigating the credit risk by monitoring and controlling the Bank's credit portfolio quality, as well as controlling implementation of credit policy and procedures at the branches. The CRD consists of credit risk analysts, who are responsible for preparation of credit risk opinions on loan proposals, which are presented to the Head Office Credit Committee and Head Office Sub-Credit Committee. Also, credit monitoring officers are responsible for the portfolio analysis, on-site assessment of the branch / sub-branch credit risk, and monitoring of the branch loan portfolio quality and any credit exposures identified as watch list. The Department has specialized assets appraisal officers, who perform valuation (i.e. estimation of market price) of immovable collateral for loan proposals presented to the Head Office Credit Committees. The construction engineers prepare technical opinion on construction loans, including confirmation of existence of all construction permits, verification of the construction budget etc., The environmental officer prepares environmental opinions on the loan proposals with high environmental impact. The mining analyst prepares mining opinions on the mining loans and monitors performance of those loans.

In case of submitting a loan proposal to the Head Office Credit Committees, in order to mitigate risks of pre-disbursement, it is necessary to perform a risk rating assessment, obtain a legal opinion, a mining assessment, an environmental assessment and collateral appraisal report from related departments and attach them to the loan file documentation before presenting loan proposals to the Head Office Credit Committee.

The limits for monitoring exposure to credit risk include limits per business sector, single borrower and the related parties. The Bank has approved appropriate policies and procedures for each loan product including

30. Financial Risk Management (Continued)

overall business processes from loan disbursement until its full repayment in order to mitigate credit risk. The information on the Bank's exposure to credit risk is presented at the Board of Directors' meeting on a monthly basis and to the Board Risk Management Committee quarterly or semi-annually. During these meetings, reports on loan portfolio concentration, top exposures, overdue and restructured loan portfolio are analyzed and further actions agreed.

Internal Audit Department conducts off-site and on-site audits to the branches /sub-branches on a continuous basis in order to assess whether the Loan policy and procedures are followed and evaluate credit portfolio quality. MIS reports are produced in order to provide the Bank's management with information on loan portfolio quality on a daily basis. MIS reports regularly used by the Bank's management include aging analysis of the overdue outstanding loans by the branches/sub-branches, by the loan products.

Management therefore considers it appropriate to provide aging and other information about credit risk as disclosed in Note 10. In case of necessity, non-performing loans are transferred to Special Assets Department, which is a specialized team to collect bad assets.

The amount and type of collateral required depends on an assessment of the credit risk of a counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters and are stated in the Bank's Loan policy and procedures. The Bank accepts the following types of collateral in combination of immovable and movable assets. Immovable assets include: production plant and facilities, building for service/commercial use, apartment, private house and land with ownership title. Movable assets include: motor vehicles, equipment, assets for personal use (electronic appliance etc.), business receivables and inventory, bank deposits, livestock, mineral resources mining license, stocks, and other assets owned by a borrower. The Bank evaluates collateral value at market price and discounts it at the Risk Assessed percentage to estimate the risk assessed price. Risk assessed price of total collateral shall not be lower than 100% of the amount of loan disbursed. Therefore, the Bank works to ensure that the loans are secured by sufficient collateral.

The credit quality of financial assets is managed by the Bank using the following internal credit ratings.

Credit rating	Grade Description
1-2	Excellent
3-5	Good
6-10	Watch, past due and non-performing, respectively

Excellent loans – high quality credit transactions, which never been past due and have minimum credit risk.

Good loans – standard quality loans, acceptable quality of cash flows of the borrower.

The information on credit quality of loans neither past due nor impaired is given in Note 10. Credit quality of other financial assets is disclosed in Notes 7, 8, 9, 10, 13, 14, 15 and 18.

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 Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

30. Financial Risk Management (Continued)

However, issuance of credit-related commitments is done through specialised departments Trade Finance Unit in the Head Office and Settlement Department in the Head Office i.e. no such activities are performed by the branches. Exposure to credit risk as a result of credit related commitments is given in Note 32.

The management believes that no provision on credit related commitments (such as issued guarantees, letters of credit etc.) is necessary as of 31 December 2014 and 31 December 2013 (refer to Note 32).

For more details on accounting policy and methods used for determining impairment provision refer to Notes 3 and 4.

Market risk. The Bank takes exposure to market risk, which is the risk to incur losses of income and assets due to the market adverse movements in interest rate, currency and commodity prices of on and off-balance sheet positions owned by the Bank. Market risk management shall be aimed at creating the most optimal balance sheet structure, which earns the highest net interest income.

Currency risk. ALCO sets limits on the level of exposure by currencies, which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the Bank of Mongolia (Central Bank) and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Operational and Market Risk Department controls that the currency exchange operations are managed within the approved limits.

30. Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014. Foreign currency risk arising from derivatives is monitored internally by the key management on the basis of undiscounted cash inflows and outflows on the settlement of derivatives, given that derivatives are settled on gross basis. As a result, the amounts related to derivatives in the table below represent future cash inflows/(outflows) in different currencies arising on the settlement of derivatives and foreign currency amounts are translated using official exchange rate of the Bank of Mongolia on the reporting date. These amounts are different from those presented in Note 18, which represent the basis for calculation of fair value of derivatives and therefore use discounted future cash inflows/(outflows) and forward foreign currency rates.

In thousands of Mongolian Tugriks	MNT	USD	CNY	EUR	Other	Total
Monetary financial assets						
Cash and cash equivalents	759,132,289	291,019,968	51,937,698	18,594,959	10,865,546	1,131,550,460
Mandatory reserves with the Bank of Mongolia	149,687,231	69,712,988	11,923,028	25,870,364	36,653,351	293,846,962
Due from other banks	-	88,739,864	-	-	-	88,739,864
Loans and advances to customers	2,576,802,090	394,483,573	15,362	356,083	-	2,971,657,108
Investment securities held to maturity	22,724,954	-	-	-	-	22,724,954
Short term investments	151,536,629	-	-	-	-	151,536,629
Long term investments	270,275,863	-	-	-	-	270,275,863
Other monetary financial assets	3,428,561	802,537	-	-	-	4,231,098
Total monetary financial assets	3,933,587,617	844,758,930	63,876,088	44,821,406	47,518,897	4,934,562,938
Monetary financial liabilities						
Due to other banks	535,018,240	16,429,964	333,386	29,789,043	22,414,097	603,984,730
Customer accounts	2,133,634,658	551,084,472	51,262,626	3,098,863	5,669,484	2,744,750,103
Other borrowed funds	461,310,979	604,512,572	-	12,098,517	-	1,077,922,068
Other financial liabilities	11,412,525	958,497	28,433	-	-	12,399,455
Subordinated debt	-	213,211,444	-	-	-	213,211,444
Total monetary financial liabilities	3,141,376,402	1,386,196,949	51,624,445	44,986,423	28,083,581	4,652,267,800
Derivatives	(491,924,420)	471,118,426	-	-	(15,740,000)	(36,545,994)
Net balance sheet position	300,286,795	(70,319,593)	12,251,643	(165,017)	3,695,316	245,749,144

30. Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2013.

In thousands of Mongolian Tugriks	MNT	USD	CNY	EUR	Other	Total
Monetary financial assets						
Cash and cash equivalents	895,710,043	410,304,850	62,978,229	6,265,928	10,605,107	1,385,864,157
Mandatory reserves with the Bank of Mongolia	266,275,846	80,103,778	-	-	-	346,379,624
Due from other banks	-	88,773,090	-	-	-	88,773,090
Loans and advances to customers	2,048,279,859	395,855,894	218,747	2,057,938	-	2,446,412,438
Investment securities available for sale	133,707,596	-	-	-	-	133,707,596
Short term investments	63,017,544	-	-	-	-	63,017,544
Long term investments	185,291,673	-	-	-	-	185,291,673
Investment securities held to maturity	14,878,420	-	-	-	-	14,878,420
Other monetary financial assets	2,028,462	442,643	-	-	-	2,471,105
Total monetary financial assets	3,609,189,443	975,480,255	63,196,976	8,323,866	10,605,107	4,666,795,647
Monetary financial liabilities						
Due to other banks	465,815,631	43,689,723	450,736	597	5,635	509,962,322
Customer accounts	2,195,024,754	532,115,529	38,198,511	2,523,486	5,863,136	2,773,725,416
Deferred grants	4,117,693	-	-	-	-	4,117,693
Other borrowed funds	670,485,436	343,560,682	-	2,078,605	-	1,016,124,723
Other financial liabilities	10,509,500	803,236	30,129	-	-	11,342,865
Subordinated debt	-	135,884,854	-	-	-	135,884,854
Total monetary financial liabilities	3,345,953,014	1,056,054,024	38,679,376	4,602,688	5,868,771	4,451,157,873
Derivatives	(27,603,652)	37,513,609	-	796,471	2,086,868	12,793,296
Net balance sheet position	235,632,777	(43,060,160)	24,517,600	4,517,649	6,823,204	228,431,070

30. Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss to reasonably possible changes in currency exchange rates applied at the end of the reporting period 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 15% (2013: strengthening by 20%)	(10,547,939)	(8,612,032)
US Dollar weakening by 15% (2013: weakening by 20%)	10,547,939	8,612,032
CNY strengthening by 10% (2013: strengthening by 20%)	1,225,164	4,903,520
CNY weakening by 10% (2013: weakening by 20%)	(1,225,164)	(4,903,520)
Euro strengthening by 5% (2013: strengthening by 25%)	(8,251)	1,129,412
Euro weakening by 5% (2013: weakening by 25%)	8,251	(1,129,412)
Other strengthening by 1% (2013: strengthening by 1%)	40,353	68,232
Other weakening by 1% (2013: weakening by 1%)	(40,353)	(68,232)
Total	-	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank. The Bank's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

In thousands of Mongolian Tugriks	Average exposure during 2014	Average exposure during 2013
US Dollar strengthening by 15% (2013: strengthening by 20%)	(2,523,792)	(989,433)
US Dollar weakening by 15% (2013: weakening by 20%)	2,523,792	989,433
CNY strengthening by 10% (2013: strengthening by 20%)	569,907	2,098,359
CNY weakening by 10% (2013: weakening by 20%)	(569,907)	(2,098,359)
Euro strengthening by 5% (2013: strengthening by 25%)	(10,728)	(37,917)
Euro weakening by 5% (2013: weakening by 25%)	10,728	37,917
Other strengthening by 1% (2013: strengthening by 1%)	37,060	21,649
Other weakening by 1% (2013: weakening by 1%)	(37,060)	(21,649)
Total	-	-

Interest rate risk. 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 reduce or create losses in the event that unexpected movements arise. ALCO monitors on regular basis the interest margins across all business lines.

The Bank uses several methods to analyze its interest rate risk, including correlation analysis between interest rate and tenor, assets and liabilities repricing gap model or interest-sensitive assets and liabilities analysis and fair value of assets and liabilities. In order to be classified per maturity group, fixed rate assets and liabilities are grouped by their maturities, while floating rate assets and liabilities are grouped in accordance with the subsequent interest repricing period.

30. Financial Risk Management (Continued)

Fair value of assets and liabilities is calculated by converting the cash flow of fixed-rate assets and liabilities maturing in more than one year into their current value. Fair value of assets and liabilities is an indicator that shows lost opportunity, which is not an actual loss for a bank, but reduces potential future profit.

Further, the Bank monitors interest correlation of loans, a basic type of asset, and current and savings accounts, basic types of liabilities, as well as average interest rate of assets and liabilities on ongoing basis. Moreover, the analysis is performed in regards to the impact of change in average interest rate on the overall assets and liabilities.

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

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2014					
Total financial assets	1,445,164,211	1,089,103,220	836,643,160	1,594,158,204	4,965,068,795
Total financial liabilities	1,452,714,670	1,555,898,086	702,082,357	941,572,687	4,652,267,800
Net interest sensitivity gap at 31 December 2014	(7,550,459)	(466,794,866)	134,560,803	652,585,517	312,800,995
31 December 2013					
Total financial assets	1,827,481,676	854,934,645	654,336,258	1,335,275,521	4,672,028,100
Total financial liabilities	855,762,456	2,864,128,488	522,668,660	208,598,269	4,451,157,873
Net interest sensitivity gap at 31 December 2013	971,719,220	(2,009,193,843)	131,667,598	1,126,677,252	220,870,227

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 5% higher/(lower) with all other variables held constant, the financial result for 2014 would be have been MNT 31,280,100 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 5% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 24,142,264 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.

30. Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises weighted average 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:

In % p.a.	2014					2013			
	MNT	USD	CNY	EUR	JPY	MNT	USD	CNY	EUR
Assets									
Cash and cash equivalents									
- Bank of Mongolia treasury bills	12.0	-	-	-	-	10.6	-	-	-
- Government treasury bills	15.7	-	-	-	-	8.3	-	-	-
- Placements with other banks with original maturities of less than three months	10.0	1.5	-	5.0	-	-	3.6	6.3	-
Due from other banks									
- Short-term placements with other banks with original maturities of more than three months and less than one year	-	7.4	-	-	-	-	5.8	-	-
Loans and advances to customers									
- Business lending	17.2	12.0	-	8.1	-	16.5	12.1	14.4	9.6
- Consumer lending	16.4	12.5	4.5	-	-	16.6	12.4	4.0	-
- Agricultural lending	25.1	-	-	-	-	25.6	-	-	-
Investment securities available for sale	4.5	-	-	-	-	4.5	-	-	-
Short term investments									
- Government treasury bills	14.2	-	-	-	-	8.8	-	-	-
Long term investments									
- Government bonds	11.5	-	-	-	-	10.4	-	-	-
Investment securities held to maturity	10.5	-	-	-	-	10.5	-	-	-
Liabilities									
Due to other banks									
- Short-term placements of other banks	13.0	5.0	-	3.5	3.2	9.0	4.4	-	-
- Long-term placements of other banks	-	-	-	-	-	10.0	-	-	-
Customer accounts									
- current accounts	2.8	1.6	0.2	0.2	-	2.5	1.6	0.3	-
- demand deposits	6.5	2.6	1.4	-	-	6.6	2.3	1.3	-
- term deposits	14.6	6.4	2.9	3.5	3.2	13.4	5.7	2.6	-
Other borrowed funds	3.8	6.4	-	6.0	-	3.8	5.3	-	4.5
Subordinated debt	-	8.0	-	-	-	-	8.1	-	-

The sign “-” in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency or such assets or liabilities are non-interest bearing.

Other price risk. The Bank has limited exposure to equity price risk, as the overall amount of equity investments as of 31 December 2014 and 31 December 2013 was not significant (refer to Note 12).

Geographical risk concentrations. The Bank 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. Although a

30. Financial Risk Management (Continued)

major part of financial liabilities relates to Mongolia, the concentration is lower in case of financial liabilities, as a major part of other borrowed funds and all subordinated debt is received from international financial institutions.

The management believes that the Bank'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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, 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 the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees etc. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with relatively high level of certainty. Liquidity risk is managed by ALCO of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, other borrowed funds and subordinated debt. It is the Bank's policy to maintain a prudent mix of borrowed funds and core deposit base. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In addition, the Bank maintains a statutory reserve with the Central Bank of Mongolia equal to 12% (2013: 12%) of customer deposits.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Bank of Mongolia. These ratios include liquidity ratio

30. Financial Risk Management (Continued)

(calculated as the ratio of liquid assets to total liabilities), local currency liquidity ratio, (calculated as the ratio of local currency liquid assets to local currency liabilities) and foreign currency liquidity ratio (calculated as the ratio of foreign currency assets to foreign currency liabilities). The Bank has complied with these ratios as of 31 December 2014 and during 2013.

Apart from prudential ratios established by the Central Bank, the Bank also complies with internal ratios and limits set by ALCO for treasury activities. Further, liquidity risk is also managed through the process of quarterly monitoring of the Bank's compliance with debt covenants, which include liquidity related ratios (limits), refer to Note 21.

The Bank manages its liquidity risk through regular monitoring of the following reports: assets and liabilities maturity gap report, cash flow report, along with monitoring liquidity ratios and limits. While assets and liabilities gap report classifies assets and liabilities by their maturities, cash flow report uses projections of the cash inflows and outflows of the assets and liabilities. Even though the Bank is rarely significantly exposed to liquidity risk, the potential impact of liquidity risk is considered serious. Therefore, the Bank has in place a contingency plan for liquidity risk. Furthermore, since the funds might not be sufficiently available on the interbank market in the event of liquidity crisis, the Bank establishes limits for interbank market using an internal scoring method on a quarterly basis.

The table below shows financial assets and liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

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

30. Financial Risk Management (Continued)

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 cash equivalents	990,940,139	145,816,709	-	-	-	1,136,756,848
Mandatory reserves in BOM	293,846,962	-	-	-	-	293,846,962
Due from other banks	1,046,131	75,510,841	14,922,654	-	-	91,479,626
Loans and advances to customers	172,017,638	792,677,102	937,157,511	1,616,463,060	651,853,082	4,170,168,393
Investment in associates	512,888	-	-	-	-	512,888
Short term investments	4,000,000	54,000,000	105,000,000	-	-	163,000,000
Long term investments	6,266,102	39,536,281	-	271,432,036	35,205,558	352,439,977
Investment securities held to maturity	409,068	971,546	1,185,876	-	65,564,693	68,131,183
Other financial assets	34,224,067	-	-	-	-	34,224,067
Total financial assets	1,503,262,995	1,108,512,479	1,058,266,041	1,887,895,096	752,623,333	6,310,559,944
Liabilities						
Due to other banks	487,389,978	87,620,035	34,641,479	-	-	609,651,492
Customer accounts	970,270,740	1,142,465,247	557,098,675	219,305,462	-	2,889,140,124
Other borrowed funds	25,790,893	388,090,416	147,845,749	596,284,100	4,042,849	1,162,054,007
Other financial liabilities	12,399,455	-	-	-	-	12,399,455
Subordinated debt	37,751,361	7,556,171	6,569,055	206,621,633	-	258,498,220
Financial guarantees and letters of credit	162,450,521	42,053,370	10,801,914	39,832,186	-	255,137,991
Gross loan commitments (Note 32)	46,729,283	-	-	-	-	46,729,283
Total financial liabilities	1,742,782,231	1,667,785,239	756,956,872	1,062,043,381	4,042,849	5,233,610,572
Net position	(239,718,550)	(560,244,306)	299,690,261	826,284,747	750,937,220	1,076,949,372
Cumulative position	(239,718,550)	(799,962,856)	(500,272,595)	326,012,152	1,076,949,372	-

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

30. Financial Risk Management (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 cash equivalents	1,357,299,215	30,500,000	-	-	-	1,387,799,215
Mandatory reserves with the Bank of Mongolia	346,379,624					346,379,624
Due from other banks	1,283,141	88,679,336	-	-	-	89,962,477
Loans and advances to customers	134,623,535	571,818,434	787,380,029	1,301,950,047	361,938,911	3,157,710,956
Investment securities available for sale	665,739	134,026,858	-	-	-	134,692,597
Investment in associates	512,888	-	-	-	-	512,888
Investment securities held to maturity	38,421	753,130	792,085	6,323,695	38,554,938	46,462,269
Short term investments	8,000,000	28,000,000	29,500,000	-	-	65,500,000
Long term investments	3,037,153	15,931,268	17,931,268	202,865,813	7,400,094	247,165,596
Other financial assets	7,190,670	-	-	-	-	7,190,670
Total financial assets	1,859,030,386	869,709,026	835,603,382	1,511,139,555	407,893,943	5,483,376,292
Liabilities						
Due to other banks	320,425,688	189,026,485	5,685,877	70,292	-	515,208,342
Customer accounts	588,451,698	1,908,757,147	400,879,013	22,174,624	-	2,920,262,482
Deferred grants	4,117,693	-	-	-	-	4,117,693
Other borrowed funds	4,973,092	462,700,892	177,251,323	418,190,590	2,342,043	1,065,457,940
Other financial liabilities	11,342,865	-	-	-	-	11,342,865
Subordinated debt	248,654	4,172,015	5,601,453	159,342,059	-	169,364,181
Financial guarantees and letters of credit (Note 32)	227,812,112	9,865,826	7,003,044	11,668,728	-	256,349,710
Gross loan commitments (Note 32)	47,051,442	-	-	-	-	47,051,442
Total financial liabilities	1,204,423,244	2,574,522,365	596,420,710	611,446,293	2,342,043	4,989,154,655
Net position	654,607,142	(1,704,813,339)	239,182,672	899,693,262	405,551,900	494,221,637
Cumulative position	654,607,142	(1,050,206,197)	(811,023,525)	88,669,737	494,221,637	-

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap.

30. Financial Risk Management (Continued)

The maturity analysis of financial instruments 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 1 to 5 years	Over 5 year	Total
Assets						
Cash and cash equivalents	988,075,293	143,475,167	-	-	-	1,131,550,460
Mandatory reserves with the Bank of Mongolia	293,846,962	-	-	-	-	293,846,962
Due from other banks	493,784	73,538,400	14,707,680	-	-	88,739,864
Loans and advances to customers	119,318,156	601,089,450	736,134,088	1,177,887,884	337,227,530	2,971,657,108
Investments in associates	512,888	-	-	-	-	512,888
Short term investments	2,217,206	46,366,664	102,952,759	-	-	151,536,629
Long term investments	6,266,101	38,361,451	-	209,863,399	15,784,912	270,275,863
Investment securities held to maturity	209,754	-	-	-	22,515,200	22,724,954
Other financial assets	34,224,067	-	-	-	-	34,224,067
Total financial assets	1,445,164,211	902,831,132	853,794,527	1,387,751,283	375,527,642	4,965,068,795
Liabilities						
Due to other banks	484,756,913	84,644,328	34,583,489	-	-	603,984,730
Customer accounts	601,774,699	914,512,934	591,309,173	637,153,297	-	2,744,750,103
Other borrowed funds	25,370,161	371,495,568	130,516,365	546,649,088	3,890,886	1,077,922,068
Other financial liabilities	12,399,455	-	-	-	-	12,399,455
Subordinated debt	37,593,535	2,959,739	-	172,658,170	-	213,211,444
Total financial liabilities	1,161,894,763	1,373,612,569	756,409,027	1,356,460,555	3,890,886	4,652,267,800
Net balance sheet position	283,269,448	(470,781,437)	97,385,500	31,290,728	371,636,756	312,800,995
Aggregate position	283,269,448	(187,511,989)	(90,126,489)	(58,835,761)	312,800,995	-

The maturity analysis of financial instruments 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 cash equivalents	1,355,703,540	30,160,617	-	-	-	1,385,864,157
Mandatory reserves with the Bank of Mongolia	346,379,624	-	-	-	-	346,379,624
Due from other banks	1,105,790	87,667,300	-	-	-	88,773,090
Loans and advances to customers	105,410,431	434,842,404	643,149,719	1,039,591,152	223,418,732	2,446,412,438
Investment securities available for sale	148,196	133,559,400	-	-	-	133,707,596
Investment in associates	512,888	-	-	-	-	512,888
Short term investments	7,954,964	27,370,952	27,691,628	-	-	63,017,544
Long term investments	3,037,153	-	2,000,000	172,854,426	7,400,094	185,291,673
Investment securities held to maturity	38,420	-	-	-	14,840,000	14,878,420
Other financial assets	7,190,670	-	-	-	-	7,190,670
Total financial assets	1,827,481,676	713,600,673	672,841,347	1,212,445,578	245,658,826	4,672,028,100
Liabilities						
Due to other banks	318,431,022	185,872,360	5,623,940	35,000	-	509,962,322
Customer accounts	518,908,330	1,848,029,598	385,179,250	21,608,238	-	2,773,725,416
Deferred grants	4,117,693	-	-	-	-	4,117,693
Other borrowed funds	2,713,892	455,097,488	166,917,528	389,158,302	2,237,513	1,016,124,723
Other financial liabilities	11,342,865	-	-	-	-	11,342,865
Subordinated debt	248,654	-	-	135,636,200	-	135,884,854
Total financial liabilities	855,762,456	2,488,999,446	557,720,718	546,437,740	2,237,513	4,451,157,873
Net balance sheet position	971,719,220	(1,775,398,773)	115,120,629	666,007,838	243,421,313	220,870,227
Aggregate position	971,719,220	(803,679,553)	(688,558,924)	(22,551,086)	220,870,227	-

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for 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 Bank and its exposure to changes in interest and exchange rates.

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 Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Bank does regular "deposit stickiness" analysis on movement of current accounts and demand deposit in order to avoid sudden fund withdrawal and regularly does stress tests on liquidity with different scenarios.

The "deposit stickiness" analysis is based on historical analysis of movements of current accounts and demand deposits. Bank see the possibility of allocating current accounts in time bands and adjusting existing

30. Financial Risk Management (Continued)

demand deposit allocation derived from analysis of historical stability. Based on historical evidence, more than 44% of total current accounts and demand deposits has been stable since 2009.

Operational risk. The Bank defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, persons, systems or external events. Operational risk includes: internal fraud, external fraud, security of the workplace, customer risk, product and service risk, IT-Information System risk, risk of internal process, external events, reputational risk, risks of legal and inadequate external regulation, strategic risk, and personnel risk. Furthermore these were classified in sub-categories.

The Bank's operational risk management implementing units include: Risk Management Committee of the Board of Directors, the Bank's Risk Committee, Branch Risk Committees, and Operational and Market Risk Department.

The Bank's Risk Committee is responsible for identifying, measuring and controlling risks, deciding on the measures to manage the risks, and developing risk management strategy. The following sub-committees are functioning at the Bank to manage specific risks in more depth: IT Risk sub-committee, Operational Risk sub-committee, Information Security sub-committee and Card Risk sub-committee, which has been operating starting from June 2014.

Each branch has a Branch Risk Committee to manage and control operational risks. This committee is assigned to discuss risks of its sub-branches every month and take measures to control and mitigate risks according to the procedure approved by the Risk Committee and report to the Director in charge or the Risk Committee in order to obtain decisions on risks with potential or actual large loss implications.

Compliance risk. The Bank oversees its activity on regular basis in relation to the compliance risks such as risks to incur penalties due to non-compliance with both financial and non-financial laws, regulations and other requirements, required by the stakeholders of the Bank, including the Bank of Mongolia ("Central Bank"), other regulatory bodies, and foreign lenders.

The Compliance Department is primarily responsible for ensuring that the Bank complies with relevant laws and regulations and maintaining highest ethical and compliance standards among industry peers, while working toward prevention of money laundering and terrorism financing. The Department conducts compliance and AML awareness trainings for employees in accordance with the Bank's staff training program and carries out regular assurance reviews. Compliance Committee was formed in 2014.

The Compliance Policy of the Bank was approved by the Board of Directors in May 2011, whereas the Anti-Money Laundering and Counter Terrorism Financing Policy was approved in June 2009. Both the Bank's management and the Board of Directors consider compliance and AML/KYC as areas of major importance to the Bank, and put special emphasis on enhancing its AML program and activities.

In 2014, the Bank was not involved in any material legal proceedings or sanctions associated with non-compliance with legislation or regulation.

31. MANAGEMENT OF CAPITAL

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Bank of Mongolia, including capital adequacy ratio, (ii) to safeguard the Bank's ability to continue as a going concern, (iii) to ensure that Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value, (iv) to ensure the Bank's compliance with debt covenants specified in the borrowing agreements with international financial institutions.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, obtained new debt and/or customer deposits or sell assets to reduce debt.

The amount of capital that the Bank managed as at 31 December 2014 was MNT 443,616,867 thousand (31 December 2013: MNT 335,592,608 thousand). Compliance with capital adequacy ratios set by the Bank of the Mongolia is monitored monthly with reports outlining their calculation reviewed and signed by the Chief Financial Officer. Compliance with debt covenants specified in the borrowing agreements with international financial institutions is also monitored on a quarterly basis (Note 32).

During 2014 and 2013 the Bank has complied with all capital requirements imposed by the Bank of Mongolia.

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio (which is defined as the ratio between tier I capital and risk weighted assets) of 9% (2013: 8%) and risk weighted capital ratio (which represents the ratio between total regulatory capital and risk weighted assets) of at least 14% (2013: 13%). These ratios are calculated on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics (i.e. risk weighted assets), as disclosed below. The capital adequacy ratios of the Bank as at 31 December 2014 and 31 December 2013 are as follows:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Tier I capital		
Share capital	32,995,030	32,995,030
Share premium	14,140,923	14,140,923
Treasury stock	(28,613,934)	(28,613,934)
Retained earnings	404,511,248	295,859,340
Total tier I capital	423,033,267	314,381,359
Tier II capital		
Revaluation surplus	20,583,600	21,211,299
Subordinated debt	211,187,200	135,636,200
Total tier II capital	231,770,800	156,847,498
Total regulatory capital / capital base	654,804,067	471,228,857
Core capital adequacy ratio	11.1%	11.1%
Risk weighted capital ratio	17.2%	16.6%

Subordinated debt in the amount of outstanding principal is included in the above calculation, and excludes interest accrued as per requirements of the Bank of Mongolia.

32. CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time and in the normal course of business, claims against the Bank 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.

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 re-assessment 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 21, 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. 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.

Outstanding credit related commitments are as follows:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Guarantees issued	100,769,191	65,004,511
Import letters of credit	46,484,871	16,252,685
Undrawn credit lines	46,729,283	47,051,442
Total credit related commitments	193,983,345	128,308,638

The Bank's management believes that fair value of guarantees, letters of credit, and loan and credit line commitments is not material as of 31 December 2014 and 31 December 2013.

The bank has issued to the Bank of Mongolia an amount of MNT 107,883,929 thousand in the form of guarantees for the funds received under the FPS, Construction sector support and apartment price stabilization and construction programs implemented by the Government (refer to Note 4, 21). These guarantees are for the funding received by the Bank from the Bank of Mongolia (self-guarantee). As this liability is already recorded within 'Other Borrowed Funds' (Note 21), this amount has not been included in the above credit related commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

32. Contingencies and Commitments (Continued)

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
US Dollars	109,022,000	72,960,004
Mongolian Tugriks	79,000,096	52,911,352
Euro	4,199,957	2,437,282
CNY	1,606,492	-
Other	154,800	-
Total credit related commitments	193,983,345	128,308,637

The Bank has not recognized provision on credit related commitments, 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 and 31 December 2013 losses on credit related commitments are not considered probable and cannot be reliably measured.

Commitment for investing in the Mongolia Opportunities Fund I L.P.

Mongolia Opportunities Fund I L.P. (the Fund) is an eight-year closed-end Mongolia-focused private equity fund. The Fund will make equity investments in small and medium enterprises (SMEs) along the mining supply chain, in infrastructure, and in agribusiness. The Fund could also opportunistically invest in telecommunications, financial services, and wholesale/retail trade. The Khan Bank commitment for Mongolia Opportunities Fund I L.P. as of 31 December 2014 is USD 326,517 under the agreement. (31 December 2013: USD 606,296). The Bank has invested USD 279,754 and EUR 2,840 during the year of 2014 (Note 18).

Loans managed by the Bank for third parties

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Mongolia Mortgage Corporation Loans (ii)	208,951,821	148,371,573
Solar Energy Loan from Ministry of Energy (iii)	70,336	70,561
EBRD project (i)	-	2,954,538
Other	185,320	524,761
Total	209,207,477	151,921,433

(i) EBRD project

On 29 July 2010, the Bank entered into a risk sharing Medium Term Co-financing Facility with the EBRD and concluded a participation loan agreement. The facility is to co-finance Mongolian SME and corporate customers with the EBRD's participation of up to 50% and USD 10 million in aggregate. The Bank receives funds related to the EBRD's participation once a decision for loan is made and a sub-loan agreement with

32. Contingencies and Commitments (Continued)

a borrower is concluded. All interest and fee income from a sub-loans are shared in line with each banks' participation percentage.

The Bank earns an administration fee of 2.5% per annum on EBRD's share of each loan for managing loan.

The Bank's share in disbursed loans to customers, on which the Bank bears credit risk, is recognized within loans and advances to customers.

(ii) Mongolian Mortgage Corporation Loans

On 15 September 2010, the Bank entered into an agreement with the Mongolian Mortgage Corporation (MIK) to transfer some of the Bank's mortgage loans to Mongolia Mortgage Corporation ('MIK') to improve liquidity. Under this agreement, 78 mortgage loans have been transferred to MIK. The Bank has transferred substantially all of the risks and rewards of ownership of the mortgage portfolio to MIK. The Bank has no responsibility to MIK in case of credit default, interest rate risk and prepayment risk. The Bank received an amount equivalent to the total outstanding balance plus interest receivables as of date of transaction. At the same time the Bank and MIK executed a service agreement, under which, the Bank will collect loan repayment and interest on behalf of MIK from the borrowers. Refer to Note 35.

The Bank earns a service fee of 1% per annum on the outstanding principal balance of the mortgage portfolio.

Mongolian Mortgage Corporation LLC (MIK) securitisation transaction. The Bank participated in three MIK securitization transactions. One in 2013 and the other two in 2014. The bank sold a total of MNT 225,151,500 thousand of the 8% Mortgage loans, described in Note 4, to MIK SPC, a special purpose company wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) amounting to MNT 202,636,290 thousand Senior RMBS notes bearing interest at 4.5% and MNT 22,515,210 thousand Junior RMBS notes bearing interest at 10.5%. Please refer to Note 4. The loans have been purchased by MIK-SPC 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.

(iii) Solar Energy Loan

On 21 October 2003, the Bank entered into a Solar Energy Loan Agreement with the Ministry of Energy (formerly known as Ministry of Infrastructure). Under this agreement, the Bank is responsible for the distribution of the loans to the borrowers selected by the Bank, for the monitoring of the borrowers' compliance with loan agreements and providing the Ministry of Energy with timely information on the status of these loans. The Bank, acting on behalf of the Ministry of Energy, has outstanding solar energy loans to herders and farmers amounting to MNT 70 million (2013: MNT 71 million).

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 293,846,962 thousand (31 December 2013: MNT 346,379,624 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 195,000,000 thousand (2013: 177,540,811 thousand) represent collateral for sales and repurchase agreements with local banks (Note 19). 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 are transferred by the Bank of Mongolia to the lending bank.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 judgment 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:

In thousands of Mongolian Tugriks	31 December 2014				31 December 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial assets								
Investment securities available for sale	-	-	1,276,432	1,276,432	-	133,707,596	-	133,707,596
Other financial assets								
Financial derivatives	-	28,716,537	-	28,716,537	-	4,068,300	-	4,068,300
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS								
	-	28,716,537	1,276,432	29,992,969	-	137,775,896	-	137,775,896

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	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Financial assets			
Financial derivatives – Short term	1,382,510	Interest rate parity analysis	Inter-bank rates of each currency
Financial derivatives – Long term	27,334,027	Interest rate parity analysis	Chingis Bond yield, repo rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2		28,716,537	

Investment securities available for sale fully relate to the Bank's investment in Mongolia Opportunity Fund (Note 18). Management believes that this investment was purchased at market price and that the fair value of this investment as of 31 December 2014 is not materially different from its carrying value. This investment as of 31 December 2013 was presented as assets and liabilities not measured at fair value but for which fair value is disclosed. Management has improved disclosure in these financial statements and believes that this change in presentation does not have material impact on these financial statements from the perspective of its users.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2013:

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Financial assets			
Investment securities available for sale	133,707,596	Discounted cash flows	Rates from recent market transactions
Other financial assets			
Financial derivatives	4,068,300	Interest rate parity analysis	Inter-bank rates of each currency
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2		137,775,896	

33. Fair Value of Financial Instruments (Continued)

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

Fair values 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	31 December 2014			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL Assets				
Cash and cash equivalents				
- Cash on hand	146,833,606	-	-	146,833,606
Correspondent accounts with other banks				
- Mongolia	1,946,726	-	-	1,946,726
- Other countries	42,516,076	-	-	42,516,076
-Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	222,166,050	-	-	222,166,050
-Bank of Mongolia treasury bills	-	238,128,953	-	238,128,953
-Government treasury bills	-	157,450,701	-	157,450,701
-placements with other banks with original maturities of less than three months	-	322,508,348	-	322,508,348
Mandatory reserves with the Bank of Mongolia	293,846,962	-	-	293,846,962
Due from other banks				
Short-term placements with other banks with original maturities of more than three months and less than one year	-	88,739,864	-	88,739,864
Loans advances to customers				
- Business lending	-	-	1,133,889,107	1,229,989,751
- Consumer lending	-	-	1,530,241,238	1,563,721,186
- Agricultural lending	-	-	173,625,077	177,946,171
Investment in associates	-	-	512,888	512,888
Short term investments				
- Government treasury bills	-	151,536,629	-	151,536,629
Long term investments				
- Government bonds	-	262,717,379	-	270,275,863
Investment securities held to maturity	-	-	21,435,956	22,724,954
Other financial assets				
- Derivatives	-	28,716,537	-	28,716,537
- Other financial assets	-	4,231,098	1,276,432	5,507,530
Total financial assets carried at amortised cost	707,309,419	1,254,029,509	2,860,980,598	4,965,068,795

33. Fair Value of Financial Instruments (Continued)

Fair values 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	31 December 2013			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL Assets				
Cash and cash equivalents				
- Cash on hand	171,174,300	-	-	171,174,300
- Cash balances with the Bank of Mongolia (other than mandatory reserve deposits)	214,758,627	-	-	214,758,627
- Correspondent accounts with other banks				
- Mongolia	1,659,698	-	-	1,659,698
- Other countries	305,750,706	-	-	305,750,706
- Bank of Mongolia treasury bills	-	568,662,367	-	568,662,367
- Placements with other banks with original maturities of less than three months	-	66,811,711	-	66,811,711
- Government treasury bills	-	57,046,748	-	57,046,748
Mandatory reserves in Bank of Mongolia	346,379,624	-	-	346,379,624
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	-	88,773,090	-	88,773,090
Loans and advances to customers				
- Business lending	-	1,099,945,208	-	1,120,278,415
- Consumer lending	-	1,203,404,458	-	1,216,359,818
- Agricultural lending	-	108,599,853	-	109,774,205
Investments in associates	-	512,888	-	512,888
Short term investments				
- Government treasury bills	-	63,017,544	-	63,017,544
Long term investments				
- Government bonds	-	186,615,193	-	185,291,673
Investment securities held to maturity	-	14,519,142	-	14,878,420
Other financial assets				
- Derivatives	-	4,068,300	-	4,068,300
- Other financial assets	-	3,122,370	-	3,122,370
Total financial assets carried at amortized cost	1,039,722,955	3,465,098,872	-	4,538,320,504

33. Fair Value of Financial Instruments (Continued)

Fair values 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	31 December 2014			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL liabilities				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	-	13,441,623	-	13,441,623
Sale and repurchase agreements with securities with other banks	-	195,000,000	-	195,000,000
- Short-term placements of other banks	-	395,508,107	-	395,508,107
- Long-term placements of other banks	-	35,000	-	35,000
Customer accounts				
Current accounts of state and public organisations	-	130,160,535	-	130,160,535
Demand deposits of state and public organisations	-	793,846	-	793,846
Term deposits of state and public organisations	-	25,316,434	-	25,686,215
Current accounts of other legal entities	-	412,959,380	-	412,959,380
Demand deposits of other legal entities	-	27,568,900	-	27,568,900
Term deposits of other legal entities	-	174,319,132	-	174,445,755
Current accounts of individuals	-	204,502,415	-	204,502,415
Demand deposits of individuals	-	584,506,605	-	584,506,605
Term deposits of individuals	-	1,184,728,342	-	1,184,126,452
Other borrowed funds	-	958,258,168	-	1,077,922,068
Other financial liabilities	-	12,399,455	-	12,399,455
Subordinated debt	-	213,211,444	-	213,211,444
Total financial liabilities carried at amortised cost	-	4,532,709,386	-	4,652,267,800

33. Fair Value of Financial Instruments (Continued)

Fair values 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	31 December 2013			Carrying amount
	Level 1	Level 2	Level 3	
FINANCIAL liabilities				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	-	6,184,991	-	6,184,991
- Sale and repurchase agreements with securities with other banks	-	177,540,811	-	177,540,811
- Short-term placements of other banks	-	318,297,598	-	318,297,598
- Long-term placements of other banks	-	7,784,966	-	7,938,922
Customer accounts				
- Current accounts of state and public organizations	173,526,462	-	-	173,526,462
- Demand deposits of state and public organizations	142,413	-	-	142,413
- Term deposits of state and public organizations	-	24,738,244	-	24,824,782
- Current accounts of legal entities	457,115,193	-	-	457,115,193
- Demand deposits of other legal entities	20,916,173	-	-	20,916,173
- Term deposits of other legal entities	-	324,074,744	-	325,128,817
- Current accounts of individuals	197,839,125	-	-	197,839,125
- Demand deposits of individuals	581,340,696	-	-	581,340,696
- Term deposits of individuals	-	993,996,830	-	992,891,755
Deferred grants	-	4,117,693	-	4,117,693
Other borrowed funds	-	1,015,749,740	-	1,016,124,723
Other financial liabilities	-	11,342,865	-	11,342,865
Subordinated debt	-	135,852,265	-	135,884,854
Total financial liabilities carried at amortized cost	1,430,880,062	3,019,680,747	-	4,451,157,873

34. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. All of the Bank's financial liabilities except for derivatives and investment securities available for sale were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category. 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	Trading assets	Held to maturity	Total
FINANCIAL Assets					
Cash and cash equivalents					
- Cash on hand	146,833,606	-	-	-	146,833,606
Correspondent accounts with other banks					
- Mongolia	1,946,726	-	-	-	1,946,726
- Other countries	42,516,076	-	-	-	42,516,076
-Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	222,166,050	-	-	-	222,166,050
- Bank of Mongolia treasury bills	238,128,953	-	-	-	238,128,953
- Government treasury bills	157,450,701	-	-	-	157,450,701
- Placements with other banks with original maturities of less than three months	322,508,348	-	-	-	322,508,348
Mandatory reserves in Bank of Mongolia	293,846,962	-	-	-	293,846,962
Due from other banks					
- Short-term placements with other banks with original maturities of more than three months	88,739,864	-	-	-	88,739,864
Loans and advances to customers					
- Business lending	1,229,989,751	-	-	-	1,229,989,751
- Consumer lending	1,563,721,186	-	-	-	1,563,721,186
- Agricultural lending	177,946,171	-	-	-	177,946,171
Investment securities held to maturity	-	-	-	22,724,954	22,724,954
Investments in associates	512,888	-	-	-	512,888
Short term investments	151,536,629	-	-	-	151,536,629
Long term investments	270,275,863	-	-	-	270,275,863
Other financial assets					
- Receivables on cash and settlements services	2,845,764	-	-	-	2,845,764
- Financial derivatives	-	-	28,716,537	-	28,716,537
- Receivables from individuals	223,106	-	-	-	223,106
- Investment Mongolia Opportunities Fund I L.P	-	1,276,432	-	-	1,276,432
- Receivables from companies	892,466	-	-	-	892,466
- Other financial assets	269,762	-	-	-	269,762
Total financial assets carried at amortized cost	4,912,350,872	1,276,432	28,716,537	22,724,954	4,965,068,795

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

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Trading assets	Held to maturity	Total
FINANCIAL Assets					
Cash and cash equivalents					
- Cash on hand	171,174,300	-	-	-	171,174,300
- Cash balances with the Bank of Mongolia (other than mandatory reserve deposits)	214,758,627	-	-	-	214,758,627
Correspondent accounts with other banks					
- Mongolia	1,659,698	-	-	-	1,659,698
- Other countries	305,750,706	-	-	-	305,750,706
- Bank of Mongolia treasury bills	568,662,367	-	-	-	568,662,367
- Placements with other banks with original maturities of less than three months	66,811,711	-	-	-	66,811,711
- Government treasury bills	57,046,748	-	-	-	57,046,748
Mandatory reserves in Bank of Mongolia	346,379,624	-	-	-	346,379,624
Due from other banks					
- Short-term placements with other banks with original maturities of more than three months	88,773,090	-	-	-	88,773,090
Loans and advances to customers					
- Business lending	1,120,278,415	-	-	-	1,120,278,415
- Consumer lending	1,216,359,818	-	-	-	1,216,359,818
- Agricultural lending	109,774,205	-	-	-	109,774,205
Investment securities available for sale	-	133,707,596	-	-	133,707,596
Investments in associates	512,888	-	-	-	512,888
Short term investments					
- Bank of Mongolia treasury bills					
- Government bonds					
- Government treasury bills	63,017,544	-	-	-	63,017,544
Long term investments					
Government bonds	185,291,673	-	-	-	185,291,673
Investment securities held to maturity				14,878,420	14,878,420
Other financial assets					
- Receivables on cash and settlements services	1,854,107	-	-	-	1,854,107
- Financial derivatives		-	4,068,300	-	4,068,300
- Receivables from individuals	15,004	-	-	-	15,004
- Investment Mongolia Opportunities Fund I L.P		651,266	-	-	651,266
- Receivables from companies	601,993	-	-	-	601,993
Total financial assets carried at amortized cost	4,518,722,518	134,358,862	4,068,300	14,878,420	4,672,028,100

As of 31 December 2014 and 31 December 2013 all of the Bank's financial liabilities were carried at amortised cost.

35. RELATED PARTY TRANSACTIONS

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

The Bank's Parent, Sawada Holdings Co. Ltd., its subsidiaries, and shareholders exercising significant influence over the Bank are disclosed in Note 24. Balances and transactions with the Parent, its subsidiaries, shareholders exercising significant influence over the Bank's operations, and the Bank's associates, are disclosed below.

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

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Asso-ciates
Gross amount of loans and advances to customers (contractual interest rate: 6.0% -24.0 %)	-	12,576,095	17,752,786	2,014,662	-
Investment in associates	-	-	-	-	512,888
Customer accounts (contractual interest rate:0.0% -16.6 %)	23,605,842	500,038	40,925,246	2,464,487	3,004,602
Other borrowed funds (contractual interest rate: 4.94%-10.37%)	13,229,631	98,928,669	-	-	-
Subordinated debt (contractual interest rate: 7.64%-11.37%)	-	114,036,864	19,320,518	-	-

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

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Asso-ciates
Gross amount of loans and advances to customers (contractual interest rate:6.0% -24.0 %)	-	14,030,000	1,167,629	1,588,765	-
Investment in associates	-	-	-	-	512,888
Customer accounts (contractual interest rate:0.0% -16.1 %)	28,636,196	532,171	26,708,237	2,067,539	2,348,296
Other borrowed funds (contractual interest rate: 5.6%)	-	72,975,000	-	-	-
Subordinated debt (contractual interest rate: 7.9%-11.4%)	-	49,623,000	16,541,000	-	-

Other related parties include entities under significant influence by management of the parent company. In addition to the above balances, the Bank has outstanding balances with its associate Mongolian Mortgage Corporation, which are outlined below. The outstanding balance of mortgage loan pools sold with recourse to its associate Mongolian Mortgage Corporation in the amount of MNT 92,608 thousand (2013: MNT 207,476 thousand) as of

31 December 2014 is included in loans and advances to customers (Note 10), as criteria for derecognition of these loans are not met. The outstanding balance of mortgage loan pools sold without recourse to Mongolian Mortgage Corporation's subsidiary MIK-SPC, as of 31 December 2014, amounted to MNT 208,951,821 thousand (31 December 2013: MNT 148,371,573 thousand). These amounts represent off-balance sheet items (Note 32). As of 31 December 2014, the Bank also has investments held to maturity of MNT 22,724,954 thousands (2013: MNT 14,878,420 thousands) which represent Junior RMBS tranches (Note 15).

Also, information on balances related to Senior RMBS tranches is disclosed in Note 11. Interest income recognized in relation to Junior and Senior RMBS tranches during 2014 amounted to MNT 2,825,023 thousand (2013: MNT 186,617 thousand) and are presented in tables below. Fee and commission income arising on servicing sold 8% mortgage loans through MIK securitization transactions amount to MNT 298,434 thousand (2013: nil) and are presented below.

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.

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

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Interest income	-	1,816,230	1,290,122	60,344	2,825,023
Interest expense	(1,886,669)	(13,450,597)	(4,621,937)	(221,313)	(189,702)
Fee and commission income					298,434
Foreign exchange translation gains less losses	(4,349,165)	(25,917,019)	(7,190,782)	(122,285)	
Administrative and other operating expenses	-	-	-	(4,859,470)	-

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

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Interest income	-	904,212	656,004	50,790	186,617
Interest expense	(1,380,002)	(4,105,095)	(2,873,117)	(197,796)	-
Fee and commission income	-	-	-	-	-
Foreign exchange translation gains less losses	(4,338,717)	(19,315,954)	(5,977,757)	(129,309)	-
Administrative and other operating expenses	-	-	-	(3,992,601)	-

35. Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties for year ended 31 December 2014 are presented below.

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Amounts lent to related parties during the period	-	40,519,473	31,782,858	799,986	-
Amounts repaid by related parties during the period	-	(41,973,377)	(16,024,617)	(512,276)	-

Aggregate amounts lent to and repaid by related parties for the year ended 31 December 2013 are presented below.

In thousands of Mongolian Tugriks	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Amounts lent to related parties during the period	-	14,030,000	848,706	788,694	-
Amounts repaid by related parties during the period	-	(6,469,793)	(12,990,894)	(290,580)	-

Aggregate amounts lent to and repaid by related parties for the year ended 2014 and 2013 do not include foreign exchange differences arising on these loans.

The outstanding credit related commitments balances represented only by the balances of other significant shareholders were as follows:

In thousands of Mongolian Tugriks	31 December 2014	31 December 2013
Irrevocable undrawn credit lines	5,344,115	1,570,000
Import letters of credit	1,029,636	548,945
Guarantees issued	633,913	610,205
Total	7,007,664	2,729,150

35. Related Party Transactions (Continued)

Key Board of Directors and management compensation is presented below:

In thousands of Mongolian Tugriks	For the year ended 31 December 2014	For the year ended 31 December 2013
Short-term benefits:		
- Salaries	4,283,588	3,422,739
- Fees paid to Board of Directors	719,137	710,702
- Social security contributions	519,107	428,876
- Fees paid to DAI	-	-
- Share appreciation rights	46,745	19,160
Total	5,568,577	4,581,477

Short-term bonuses fall due within twelve months after the end of the period in which management rendered the related services and are presented within the salaries line in the table above.

36. EVENTS AFTER THE END OF REPORTING PERIOD

Subordinated debt. The Bank executed a subordinated loan agreement with H.I.S Co.Ltd on 6 Jan, 2015. The amount was USD 10.0 million with maturity of 5 years.

Borrowings from international financial institutions. On 18 February 2015, the Bank entered into a loan agreement with Cargil Financial Services International.,INC for an amount of USD 25 million at 9.75% p.a. with maturity of 2 years. On 24 March 2015, the Bank entered into a loan agreement with BlueOrchard Microfinance Fund for an amount of USD 5 million at an interest rate of 6% p.a. with maturity of 3 years.

Policy rate. On 14 January 2015, Bank of Mongolia has increased policy rate from 12.0% to 13.0%.

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.