TDB

TRADE & DEVELOPMENT BANK

ANNUAL REPORT 2012

ANNUAL REPORT
2012

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A MESSAGE FROM THE **PRESIDENT**

RANDOLPH **KOPPA**

PRESIDENT

By the amount of our assets, we have become the biggest bank of Mongolia. By the end of 2012,total assets has reached 2.7 trillion tugriks, loan portfolio 1.5 trillion tugriks, also the financial performance and the efficiency level have been showing the top quality in the sector.

Dear clients, partners and stakeholders,

The past year was quite noteworthy for TDB. The bank had record earnings, and a solid growth in deposits and assets as it moved to become the largest Mongolian banks by assets in early 2013. All this was accomplished in an environment which continued to show continued weakness in the economies of North America and Europe, a slowing of China's growth rate, plus tighter conditions in the Mongolian economy as measures were taken to reduce the double digit inflation which plagued the country most of the year, and exports of coking coal began to fall.

Part of the bank's success was thanks to its strong earnings track record and top international reputation which enabled it to continue to attract international lenders and investors. In January 2012, the bank closed on the sale of shares to Goldman Sachs, the world's premier investment bank, representing a shareholding stake of 4.78% in TDB. This helped expand the bank's important Tier I capital position, such that, together with the retention of 2012 earnings of MNT 63.1 billion, the bank's Tier I capital ratio increased to 9.97% at year end from 8.18% the previous year.

During the year TDB also was successful in attracting FMO, the prestigious Dutch Development Bank, to invest USD 10 million in 5 year subordinated notes, which increased the bank's Tier II capital and helped the important capital adequacy ratio reach 15.12% at yearend, up considerably from 12.67% the previous year. FMO also extended a USD 10 million senior term loan to TDB.

Recognizing the confidence the international financial community continues to have in TDB, in September the bank was successful in raising USD 300 million in three year notes under its USD 700 million Euro Medium Term Note programme. This marked the fourth time TDB has used its EMTN program to access the international public debt market since 2007. TDB is the only Mongolian commercial bank to have been able to successfully use this important market to broaden its funding base. This important funding source has enabled us to provide our clients with necessary financing of capital goods.

This experience in the international markets, as well as TDB's strong local reputation, enabled TDB's subsidiary, TDB Capital, to be appointed as one of the Joint Lead Managers, together with four top international investment banks, in the Government of Mongolia's very successful debut Sovereign Bond offering, the so-called Chinggis Bond, which raised USD 1.5 billion for the country to finance much needed investment in infrastructure.

Furthering our reputation as a pioneer and leader in developing the financial market in Mongolia, TDB entered into a partnership with Bloomberg Media, the leading financial news organization, to establish Bloomberg TV Mongolia, which began broadcasting financial and business news in Mongolia in October. This initiative underscores the importance that balanced, accurate and thorough financial news and information plays in developing an active investor base in a country. As Mongolia looks forward to the implementation of a new securities law to reinvigorate the Mongolian Stock Exchange and attract greater numbers of domestic and international investors into Mongolian companies, we are proud of this latest initiative to serve the investor community.

I trust the information contained in this Annual Report will further inform you of TDB's financial position and many accomplishments in 2012. In this regard, I want to thank all our clients and partners for their support during the past year, and to underscore the commitment TDB has to continuing to serve you all with quality products and service in order to continue to have your confidence and trust.

We look confidently to the year ahead, even among signs of continuing economic and financial challenges here and abroad, and we wish all our clients, business partners and stakeholders success and prosperity as we continue forward together.

Respectfully yours,

Randolph S. Koppa
President

A MESSAGE FROM CEO

BALBAR **MEDREE**

CEO

In September 2012, Trade and Development Bank accomplished its goal to introduce to all Mongolians the "Most Money" project, which is the state of the art financial service. Thus, it is now possible to make payments, execute transactions and withdraw cash using a mobile phone. Since then, less than 4 months, the "Most Money" project has already attracted 15,700 active clients.

I would like to extend my greetings to shareholders, business partners, customers, and readers of this annual report.

In September 2012, Trade and Development Bank accomplished its goal to introduce to all Mongolians the "Most Money" project, which is the state of the art financial service. Thus, it is now possible to make payments, execute transactions and withdraw cash using a mobile phone. Since then, less than 4 months has passed, and the "Most Money" project has already attracted 15,700 active clients.

I am entirely pleased to introduce this comprehensive report on the company's activities for the year of 2012 that brought us both challenges, successes and high achievements.

The last year has shown us a strong dependence of Mongolian economy from the foreign markets, especially from the Chinese economy. The slower growth of China has negatively affected Mongolia, which is largely dependent from coal exports. As a result, the trade deficit of Mongolia had a sharp rise in July and August 2012.

During this challenging period, the Mongolian government adopted the program to stabilize consumer goods' price in Mongolia. In accordance with this program TDB granted MNT 17.4 billion loans for the national producers of food. Moreover, according to the government program to stabilize retail fuel prices, TDB issued loans worth of MNT 35.3 billion for the national fuel importers. By doing this, TDB has expressed its willingness to support government policies and contribute to the rapid growth of the national economy.

Last year TDB successfully issued its corporate bond for the third time on the international capital markets, providing more financing for the national companies.

In September 2012, Trade and Development Bank accomplished its goal to introduce to the country the "Most Money" project, which is the state of the art financial service. Thus, it is now possible to make payments, execute transactions and withdraw cash using a mobile phone. Since then, less than in 4 months the "Most Money" project has already attracted 15,700 active clients. Furthermore, we are planning to collaborate with all national mobile operators in order to widen the range of services of the "Most Money" project and, eventually, reach out to every citizen of Mongolia.

Central Bank of Mongolia has provided legal environment for issuing the first Mongolian National payment card and has chosen TDB to become the first bank to issue the National ₮ brand payment card. We are quite humbled by the fact that we have been chosen to provide this service. At the same time we clearly understand that TDB's pioneering efforts on introducing the first payment cards and establishing noncash transaction market in Mongolia are fully recognized. Therefore, we have immediately accepted the proposal and offered to our customers the first National ₮ brand payment card service.

With assistance of an international advisory firm, TDB has become the first Mongolian bank to adopt international anti-money laundering system and implement its acts and regulations. We have also introduced international environmental and social responsibility standards for the first time in Mongolia, as well as Internal Control System, which enables us to monitor all activities in order to avoid and reduce the risks.

In 1990, we started to embrace a totally new concept of Corporate Culture, and now the concept of TDB Culture has developed into a strong and independent culture. We pride ourselves in maintaining the leading role in the banking sector by virtue of this unwritten principles and norms that require everyone working for TDB to be a good citizen.

In 2013, TDB is determined to expand the number of branches and its networks and will operate with sensitivity and flexibility to fit the demands and needs of its customers and improve the quality of its products and services. Addition to offering more new international standard banking products, domestically, we announced 2013 as the "Team Efficiency Year".

I wish you to keep your spirits up, good health, success and prosperity through right thoughts and honesty.

I would also like to express my gratitude to TDB's management team, directors and all our employees for their sincere determination and outstanding efforts.

We see 2013 another year of remarkable success.

Sincerely Yours,

Medree Balbar
CEO

FINANCIAL STATEMENTS

SELECTED BALANCE SHEETS

In MNT Billions

	2012	2011	Change in	
			Amount	Percentage
Cash and due from banks	444,8	475.0	(30.2)	-6.3%
Investment securities	459.2	346.5	112.6	32.5%
Loans and advances, net	1,533.3	1,123.3	409.9	36.5%
Other assets	263.2	175.9	87.3	49.6%
Total Assets	2,700.5	2,120.7	579.7	27.3%
Deposits from customers	1,402.3	1,277.3	125.0	9.8%
Deposits and placements by banks and other financial institutions	269.5	209.4	60.0	28.7%
Debt securities issued	600.5	207.1	393.4	189.9%
Other liabilities	188.3	287.4	(99.2)	-34.5%
Total Liabilities	2,460.6	1,981.3	479.3	24.2%
Shareholders' equity	239.9	139.4	100.5	72.1%
Total liabilities and shareholders' equity	2,700.5	2,120.7	579.7	27.3%

INCOME STATEMENTS

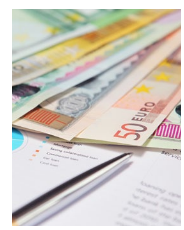
In MNT Billions

	2012	2011	Difference	
			Total	Percentage
Interest income	213.3	143.5	69.8	48.7%
Interest expense	(137.4)	(95.4)	(42.1)	44.1%
Net interest income	75.9	48.1	27.8	57.7%
Net fees and commission income	16.4	12.1	4.3	35.2%
Other operating income, net	14.3	14.2	0.1	0.9%
Net non-interest income	30.7	26.3	4.4	16.7%
Operating income	106.6	74.5	32.2	43.2%
Operating expenses	(32.9)	(20.1)	(12.8)	63.8%
Reversal of (provision for) impairment losses	6.6	(3.1)	9.6	-313.4%
Profit before tax	77.9	51.4	26.6	51.7%
Income tax expense	(14.8)	(9.3)	(5.5)	59.6%
Net profit for the year	63.1	42.1	21.0	49.9%

KEY INDICATORS

In MNT Billions

	2012	2011
Return on Equity (ROE)	26.3%	30.2%
Return on Average Equity (ROAE)	31.9%	39.8%
Return on Assets (ROA)	2.3%	2.0%
Return on Average Assets (ROAA)	2.8%	2.6%
Non Performing Loans/ Loan	1.4%	2.5%
Loan Loss Reserve/Non Performing Loans	61.1%	63.6%
Loans/ Deposits	110.3%	89.3%
Adequacy Ratio	**2012**	**2011**
Tier 1 Capital Adequacy Ratio (>8%)	9.97%	8.18%
Capital adequacy ratio (>13%)	15.12%	12.67%
Liquidity ratio (>25%)	37.00%	42.00%
Single borrower exposure/capital fund (<20%)	17.08%	19.28%
Staff loans/capital fund	0.13%	0.14%



WE ARE HIGHLIGHTING 9 ACCOMPLISHMENTS THAT WE ACHIEVED IN 2012 DOMESTICALLY AND INTERNATIONALLY.

1. We successfully issued bonds in the amount of $300 million in 2012, advancing our international reputation in the global market as the first-ever bond issuer in Mongolia.

2. Trade and Development Bank of Mongolia became the biggest bank in the country and led by financial performance with net assets of MNT 2.7 trillion , loan packages of MNT 1.5 trillion , and with average return on the assets of 2.8 percent by the end of 2012.

3. Goldman Sachs, a world renowned bank with 144 years of history announced its acquisition of a 4.8 percent stake in TDB. This gave us a reason to move forward knowing that Goldman Sachs invests only in businesses that have high capability for growth and long-term stability.

4. TDB was selected as lead manager in Mongolia for the issuance of the Government's USD 1.5 billion 'Chinggis Bond' along with four other top banks in the world.

5. TDB has opened a new page in the history of Mongolian media by cooperating with "Bloomberg Media" group to launch "Bloomberg TV Mongolia", the first official international channel launched in the country, which gave a new look to business news in Mongolia.

6. TDB introduced the very first service of its kind under the name Most Money that brought banking services to mobile phones.

7. TDB was chosen by the Central Bank of Mongolia to be the bank to release National T cards.

8. We achieved good customer satisfaction and gained the most market share with a combination of MNT, USD and CNY accounts in the Union Pay payment cards, the second most sold cards in the world.

9. TDB became the first to launch securities clearing services in Mongolia with the introduction of the MIT system in the Mongolian Stock Exchange under the the long term strategic cooperation agreement between the State Propety Committee and the London Stock Exchange,

SOCIAL RESPONSIBILITY

CARING FOR THE SOCIETY AND BEING SOCIALLY RESPONSIBLE IS OUR DUTY

We introduced international standards on environmental and social management system in Mongolia.

The, Dutch Development Bank FMO and TDB successfully collaborated on implementing an "Environmental and Social Management System" policy, making substantial reforms in the financial market. Within this framework, TDB will grant loans based on not only traditional standards such as assessment on loan repayment risk, market condition, and exchange rate but also environmental friendliness, benefits to the society and development of the country.

We strive to maintain our regular contribution to accelerating Mongolian economy.

We gave a huge importance to the international forums such as Mining Mongolia, Discover Mongolia, Coal Mongolia, IPO Mongolia, Future Mongolia and Mongolian Economic Forum and contributed to improving the economic environment and accelerating the growth. Economic challenges and approaches are the main topics of these forums.

We try to reach every part of the society where investment is needed.

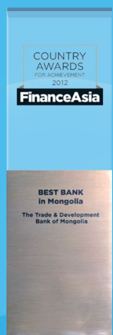
The Bank has closely collaborated with the secondary school #29 for 8 consecutive years giving joy and love to children with special needs by investing and donating. In cooperation with Max Group, we sponsored the International Children's Rights Day event by opening savings account for these children and helping them to understand the importance of monetary savings and giving them confidence for the future. We also granted the financial assistance to the Notre Dame orphanage in Mongolia to buy a car for their 10th anniversary.

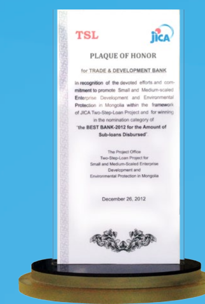
The wonder of art leads us.

We sponsored two of the most popular bands, Khurd and Nomin Talst's anniversary concerts and and collaborated on bringing their shows to the fans.

As a consistent supporter of classical music, we granted the financial assistance to Music and Dance College students to pay the international competition fees and sponsored the National Opera and Dance Theatre and Jazz concerts.

WORLD-RENOWNED AWARDS





TDB IS INTERNATIONALLY RECOGNIZED WITH **ITS ACHIEVEMENT AND HAS RECEIVED MULTIPLE WORLD-RENOWNED AWARDS**

BEST BANK IN MONGOLIA

"Finance Asia", Asia's leading financial publishing company that provides reliable financial news with the market trends, has named the TDB of Mongolia as the "Best Bank in Mongolia".

BEST TRADE FINANCE BANK

The World's leading international trade finance magazine "Global Trade Review" (GTR) held a poll in Mongolia to name the best trade financing services bank with high quality and reliable services, in which the TDB won the most votes and received the title "Best Trade Finance Bank of Mongolia" for the second consecutive year.

BEST CORPORATE BANK

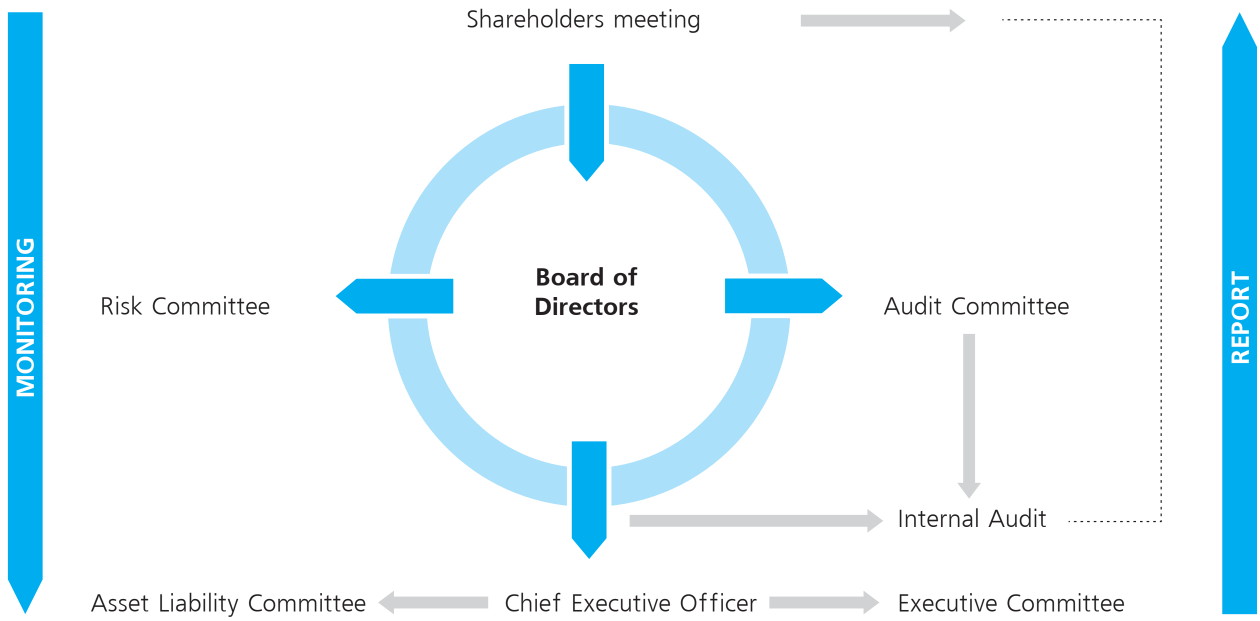
The TDB was awarded with the "Best Corporate Bank Mongolia 2012" from the top commercial banks in the world by the 2012 Global Banking & Finance Review.

BEST BANK - 2012 FOR THE AMOUNT OF SUB-LOANS DISBURSED

TDB issued MNT16 billions in sub- loans during the implemenation of Two-Step-Loan Project for Small and Medium Scaled Enterprises and Environmental Protection Phase II by JICA and was awarded as the best project financing bank from 7 participating banks with its best credit utilization.

CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

Chairman
Mr. Doljin ERDENEBILEG

Members
Mr. Zuunai SHAGDARSUREN
Mr. Randolph KOPPA
Ms. Tamir TSOLMON
Mr. Chuluunbaatar ENKHBOLD

Corporate secretary
Ms. Dashzegve DAVAAJAV

MANAGEMENT TEAM

President
Mr. Randolph KOPPA

CEO
Mr. Balbar MEDREE

First Deputy CEO
Mr. Onon ORKHON

Chief auditor
Ms. Palamdorj GANTUUL

Deputy CEO
Mr. Dambiijav KHURELBAATAR

Deputy CEO
Ms. Demchigjav OTGONBILEG

Deputy CEO
Mr. Sanjaasuren ORGODOL

Deputy CEO
Mr. Lhagvasuren SORONZONBOLD

MANAGEMENT TEAM

Mr. O.ORKHON
First Deputy CEO

Ms. P.GANTUUL
Chief Auditor

Mr. D.KHURELBAATAR
Deputy CEO

Ms. D.OTGONBILEG
Deputy CEO

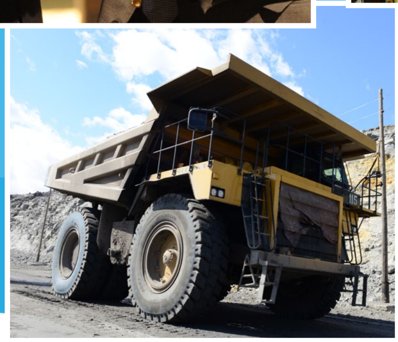
Mr. S.ORGODOL
Deputy CEO

Mr. L.SORONZONBOLD
Deputy CEO

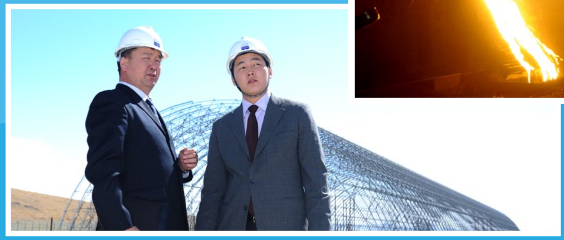
CORPORATE BANKING BUSINESS

Global Banking and Finance Review, UK based organization has awarded Trade and Development Bank of Mongolia with "Best Bank of Mongolia 2012".

CORPORATE BANKING BUSINESS





TDB has been excelling in the corporate business for 22 years by virtue of the effective cooperation with companies and corporations that are determining tendencies of economic growth. As the largest corporate lender in Mongolia with approximately 30 percent corporate lending market share, we provide comprehensive service that aligns with the financial needs of corporations. For example high performance loans, financing for infrastructure projects, flexible policy on current and saving accounts, and assistance in raising capital from the global stock markets.

Loan portfolio concentration risk has been reduced

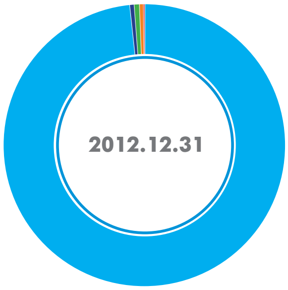
In the year of 2012, TDB's corporate loan portfolio reached MNT 1 trillion for the first time in its history. Compared to the end of the last year, it has increased by 138.1 percent reaching MNT 1.82 trillion.

As a result of rapid growth in mining sector in last few years, the share of mining loans in our total loan portfolio has dramatically increased. In 2012, we have performed the risk assessment on loan portfolio to lower risks of loan concentration and quality, and pursued the goal to increase the loan portfolio of lower risks. The following graph illustrates the policies of reducing the loans for mining sector and increasing loans to trade sector have resulted in positive outcome.

№	By industrail sector	Billion, MNT
1	Trade	326.12
2	Mining	275.57
3	Agriculture	180.54
4	Construction	167.36
5	Service	30.62
6	Transportation	30.59
7	Agronomy	23.10
8	Property	21.07
9	Finance	11.83
10	Retail	6.71
11	Health	5.44
12	Other	3.35
	Total	**1,082.30**

By classification

98.1% PERFORMING LOAN
0.03% BAD LOAN
0.76% SUBSTANDART LOAN
0.59% DOUBTFUL LOAN
0.43% PAST DUE



The domestic companies have been granted with MNT 52.7 billion in loans during the implementation of "Stabilizing the fuel retail price SIFS" and "Stabilizing the general food prices" subprograms co-implemented by the Mongolian Government and Central Bank of Mongolia with the goal to stabilize consumer prices.

Actively granting on-lending project loans, reaching MNT 79 billion worth of loan portfolio

By actively granting loans to the SME projects that are implemented with funding by the World Bank, Asian Development Bank, International Cooperation Bank of Japan, KfW of Germany and other financial institutions, we have successfully and dramatically increased the on-lending project loan portfolio from MNT 31.2 billion to MNT 79.4 billion.

SME sub-loan projects that have been successfully financed:

- SME Development project loan by the Government – MNT 540 million
- Wool and cashmere project loan sponsored by the Government and funded by ADB – MNT 26,447 million
- Two-Step-Loan Project for Small and Medium Scaled Enterprises and Environmental Protection Phase II by Japan International Corporation Agency (JICA) -– MNT 5,407 million
- Financial Sector and SME Development project by KFW bank – EUR 600 thousand
- Agriculture and Rural Development Project (ARDP) financed by Asian Development Bank (ADB) – MNT 800 million

TDB handles more than 50% of the foreign trade transactions of the country

The Bank provides corporate customers with various types of documentary credit instruments, including import letters of credit, export letters of credit, standby letters of credit, letters of guarantee, collections and structured transactions. These instruments are designed to provide the Bank's corporate customers with working capital funds and medium term financing. The Bank also acts as a leading participant in the international trade finance business in Mongolia, and has established correspondent relationships with over 150 international financial institutions. The aggregate amount of unsecured trade finance limits established by 34 major foreign financial institutions with the Bank amounted to approximately US$269 million as at December-end 2012. The Bank handled 53.7% of the foreign trade finance transactions of Mongolia in 2012. The Bank joined ADB's Trade Finance Program in March, 2010. TDB was awarded the "Best Trade Finance Bank of Mongolia" by Global Trade Review (GTR) for the years 2011 and 2012.

RETAIL BANKING BUSINESS

MoneyGram мөнгөн гуйвуулга
VISA
MasterCard
MostMoney төлбөрийн нэгдсэн үйлчилгээ
UnionPay 银联
JCB

RETAIL BANKING BUSINESS

TDB, already well-known for its corporate banking business, aims to broaden its retail banking business by intensively introducing advanced technology banking products and services, thus increasing retail loans and securing business expansion.

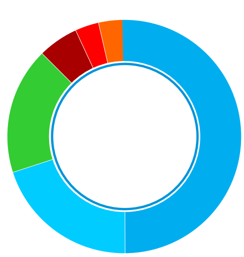
2012 was the year of intense competition in the banking sector. While other banks attempted to increase their customer deposit by favorable interest rates, TDB was committed to prevent interest rate bubble.

The policy of TDB is to support the citizens with financing who wish to have comfortable and contemporary homes.

50 percent of all retail loans issued by TDB last year were the housing loans. It shows the positive result of our banking policies to provide Mongolian citizens with homes and raise the living standards.

The reason why customers choose the housing loan product of TDB is that we offer the lowest interest rate with the longest term in current housing market. TDB requires less down payment than the other banks do and all the TDB branches are offering housing loans.

50.0%	MORTGAGE
22.0%	SALARY LOAN
14.0%	BUSINESS LOAN
6.0%	COMMERCIAL MORTGAGE LOAN
4.0%	SAVING COLLATERALIZED LOAN
4.0%	OTHER LOAN



The newest product we introduced to our customers in 2012 is Tourism Loans. Tourism loan, being implemented in cooperation with "Genko Tour Bureau" is designed for everyone who wants to travel around the world using the "Genko Tour Bureau" package.

On top of this, we launched a new loan product to all types of accounts not being limited to card accounts so that customers can receive card loans to cover short-term financial needs.

TDB, in the frame of the program to allot Children's Fund, has opened accounts at all TDB branches and settlement centers. The fact that 60 percent of all the 10.000 TDB children's accounts are linked to the children's accounts that receive direct deposits shows that citizens are willing to save money for their children at a reliable bank.

We introduced Most Money service which is the best way to get banking services via mobile phones.

In 2012, TDB has offered the first mobile banking service with the various packages such as money transfer, bank-to-bank transfer, utility bill payment, credit and debit transactions using Most Money.

Most Money service, introduced in September 2012, has attracted 15.700 customers as of December 31st, 2012 all of whom are Mobicom customers. We have been working to expand our service to Unitel and other mobile operators in 2013, and have initiated the technical arrangements.

Cheapest and fastest money transer services are being upgraded.

TDB was the first bank to serve Mongolians with Moneygram, a service that offers 10 minutes money transfer service to anywhere in the world and we're committed to making it better.

Last year, after reviewing the fee conditions and negotiating with MoneyGram, TDB succeeded to make significant changes in fee scales, thus making the service better to customers.

PayEasy service, a quick money transfer with lower fees from South Korea to Mongolia, has been improved by opening a NOSTRO account at Korea's Hana bank. Now not only citizens, but also business entities can make transactions in USD and KRW extending the concept of customer satisfaction.

We expanded the card account services and introduced Unionpay card which makes transactions in 3 different currencies.

On top of introducing cards and accepting payments, the TDB supports the other commercial banks by offering switch and processinging services to increase the number of their card holders and has listed 8 member banks including Xac Bank, State Bank, Capitron Bank, National Investment Bank and Chinggis Khaan Bank. Last year, we have also made it possible to obtain JCB cards from all around the country.

One of the highlights in card business was the successful introduction of Unionpay card, which consolidated CNY, USD and MNT accounts into one card in cooperation with Unionpay. The card is now used for customers who travel regularly to China, plus business travellers and students abroad. It is widely used as a salary card in Mongolia to make payment transactions.

As a company that aims to make non-cash transaction a regular use, we have increased the number of companies that allow card transactions to 2000 and the number of ATMs to 149.

We opened "40 Myangat" branch office with extended opening hours.

Last year, TDB launched new branches in three different locations, Khan-Uul, Narkhan and 40 Myangat, thus increased the number of branches to 45.

Customers were very pleased with opening the "40 Myangat" branch as the branch is open in extended hours from 8 am to 11 pm. Moreover, we are planning to increase the number of branches with extended hours in every district.

We have also introduced reserve tellers and bankers who have been sent to the branches with highest load in order to provide faster service and keep the customers satisfied.

INTERNATIONAL BANKING

TDB was awarded as a "Best Trade Finance Bank in Mongolia" by International Trade Finance GTR journal for the second time.

INTERNATIONAL BANKING

The Bank has direct correspondent relationships with more than 150 counter-parties located in Europe, North America and Asia. Currently, the Bank maintains 41 nostro accounts in 14 currencies at 30 top rated foreign banks in 16 different countries. This enables the Bank to carry out payments in all the major currencies and to receive up-to-date information online regarding the movement of funds in the accounts. The Bank is also a member of SWIFT. In 2012, TDB opened a JPY account at SMBC Bank, an AUD account at ANZ Bank and a USD account at Hana Bank.

As at 31 December 2012, the Bank had credit lines with major international banks and financial institutions including KEXIM, Export-Import Bank of Taiwan, Commerzbank AG, Atlantic Forfaitierungs AG, ING Bank N.V., Industrial and Commercial Bank of China, SMBC, Credit Suisse, Natixis and Deutsche Bank AG which support the services the Bank provides to its customers that are in the business of importing products from Korea, Taiwan, Japan, Europe and China. Total borrowings from international financial institutions increased from US$70.15 million in 2011 to US$114.9 million in 2012.

The Bank has on-lending programmes with the World Bank, ADB, KfW, JBIC, Export-Import Banks of Taiwan and Korea, Commerzbank and Russian Agricultural Bank. These are instrumental in providing long term financing to the Bank's SME and private sector clients.

In June 2012, TDB entered into a Senior Term Loan Facility Agreement with FMO under which the Bank borrowed USD 10,000,000 which is used for financing purposes for small and medium entities. Also, TDB obtained subordinated term loan of USD 10,000,000 granted by FMO.

The Bank was the first in Mongolia to offer syndicated loan facilities and partners with international and domestic financial institutions to arrange syndicated loan facilities for its corporate customers, particularly in the petroleum and mining sectors.

TDB has extensive experience in international relationships offering excellent international banking products and services that outshine the competition. This quality which originated from TDB's establishment in 1990 from the former International Banking Unit of State Bank, has combined traditional banking with contemporary systems to our advantage.

TDB alone executed 50 percent of country's foreign trade payments; we actively participated in financing activities in cooperation with international leading financial institutions. The Bank has direct correspondent relationships with more than 150 foreign banks and financial institutions, and has NOSTRO accounts with them to execute customer's payments and transactions in major world currencies.

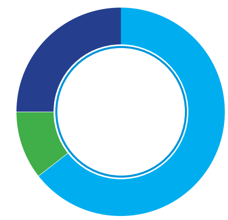
The capital raised by issuing the debt notes have been utilized to finance certain sectors that are able to give large economic yield.

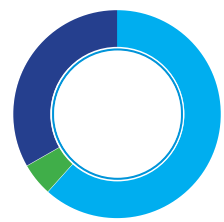
We have successfully raised $75 million in 2007, $175 million in 2010, and $300 million in 2012 through bond issuance on the international capital market. We have been 3 to 4 times oversubscribed in each deal, and these occasions have enhanced our attractiveness abroad.

Issuing a $300 Million 8.5 percent unsecured bond last year resulted after the increase the amount of our European Medium-Term to $700 million.

Investor profile

60.0%	ASSET MANAGERS
25.0%	PRIVATE BANKS
15.0%	BANKS AND OTHERS





Geographic demand

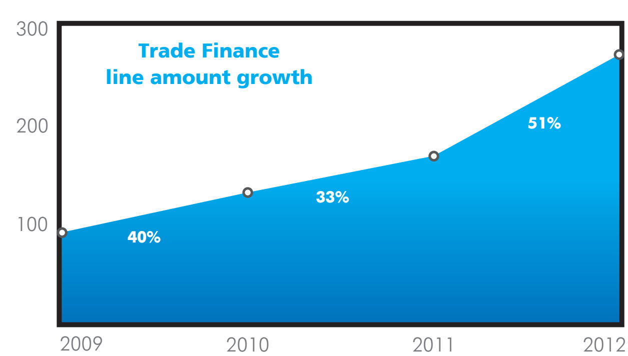
60.0%	ASIA
35.0%	EUROPE
5.0%	OFFSHORE US

The capital raised through bond issuance have been utilized to finance TDB customers, particularly in construction, trade, mining and small-to-medium enterprises that are able to give large a economic yield.

Leading trade finance bank

A part of TDB's international relations include trade finance facilities, opening letters of credit, obtaining confirmation by third party foreign banks, and onlending export credit agency covered trade finance long term loans to its customers. As of December 2012, the Bank's the trade finance volume or issued LCs and LGs amount was US$231.6 million, as compared to the full-year figure of US$222.3 million as at 31 December 2011. Credit Suisse, Natixis Bank (France), State Bank of India, China Trade Solution, Standard Chartered, UBS Bank have newly established clean credit lines for TDB. Commerzbank and SMBC banks have increased the credit line amount to EUR 32 million and USD 45 million, respectively. Credit Suisse, Natixis Bank (France), State Bank of India, China Trade Solution, Standard Chartered, UBS Bank have newly established clean credit lines for TDB in 2012

By the end of 2012, 34 top international foreign banks had $269 million lines of credit for trade finance transactions for TDB. It reflects foreign bank's validation of our letters of credit and letters of guarantee opened on behalf of our customers without any collateral or guarentee. This again proves TDB's high reputation in the international arena.



TDB CAPITAL LLC

Our landmark projects

TDB
TRADE & DEVELOPMENT BANK

Goldman Sachs

GOLDMAN ACQUIRES A 4.8 PERCENT STAKE IN

Trade and Development Bank of Mongolia

Solely arranged one of most momentous transactions in Mongolian capital market history, Goldman Sachs invests in the Mongolian entity for the first time.

Arranger

TDB CAPITAL

TDB
TRADE & DEVELOPMENT BANK

SENIOR UNSECURED NOTE

US$300.0 MILLION

within US$700.0 million EMTN program

The first and still the only Mongolian company to tap into the international debt market has successfully completed its third issue with the launch of US$300 million Senior Unsecured Notes.

Arrangers and Dealers

Bank of America Merrill Lynch ING

Co-manager

TDB CAPITAL

SOVEREIGN BOND OF MONGOLIA

US$1,500.0 MILLION

within US$5000.0 million GMTN program

FinanceAsia
Best Sovereign Bond & Best Mongolian Deal

ASIAMONEY
Best Sovereign Bond

Joint Lead Managers

Bank of America Merrill Lynch Deutsche Bank HSBC

J.P.Morgan TDB CAPITAL

TDB CAPITAL LLC

TDB Capital LLC, Mongolia's the first investment banking service provider aims to meet clients' specific demands and requirements with tailored investment banking solutions using its full-range intelligence and market insight into connecting Mongolia with the international financial markets. TDB Capital provides corporate finance, securities trading, research analysis and asset management services.

Since its inception, TDB Capital has strived to meet the client`s specific requirements with tailored investment solutions using its expertise and market insight of the local and international, and it has successfully implemented several landmark projects. Between 2011 -2012, TDB Capital solely arranged over MNT 160 billion financing for its clients in the local capital market and in cooperation with international banks, raised over USD 1.8 billion debt financing in the international market successfully which distinguishes itself as the leading financing service provider in Mongolia.

TDB Capital advantages

- Armed with fully-integrated wholesale investment banking products and services
- Highly qualified and experienced team of professionals
- Successfully arranged a significant amount of financing for our clients with international investment banks
- Established reputation across local and international markets
- Strong customer base and relationships with leading international financial institutions, funds and investors
- Unique in-house resources

BUSINESS SCALE

Corporate Finance

One of our main priorities is to provide underwriting services, using our substantial experience in cooperation with reputable international investment banks and funds and organize issuance of debt and equity of local companies. Moreover, TDB Capital aims to finance strategically important projects by raising funds for pre IPO, mining exploration and pre-export financing. The following services are offered to our clients within the framework of corporate financing.

Equity Financing

- Initial public offering (IPO)
- Secondary public offering
- Private placement
- Mergers & Acquisitions

Debt Financing

- Sovereign bond
- Corporate bond
- Syndication revolving credit line and syndicated lending
- Subordinated debt
- Other debt instruments

Securities Trading

In connection with Mongolia`s rapid economic growth and mining sector development, international investors show growing interest into the Mongolian Stock Exchange. In order to unlock this opportunity for investors as well as to expand the capital market knowledge and participation of domestic companies and civilians, we have started to provide brokerage services with high international standards. The following services are offered to our clients within framework of brokerage operation.

- Securities brokerage
- Securities settlement

Research Analysis

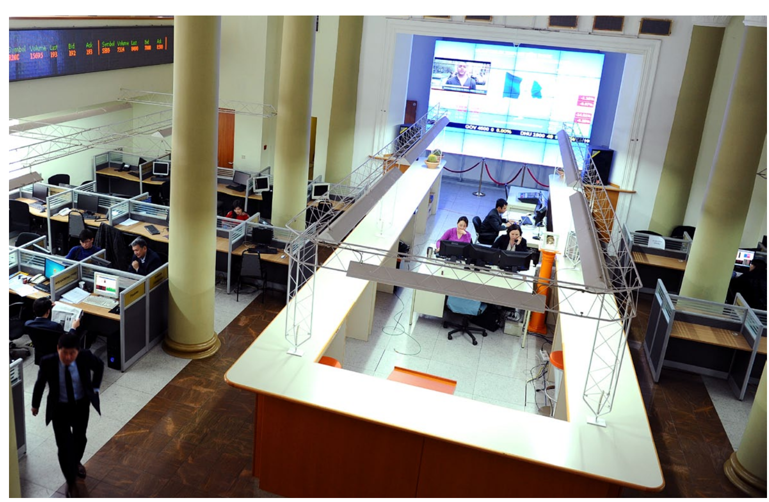
TDB Capital aims to provide its clients and investors with accurate information on macroeconomics, current market condition and future prospects in addition to doing research on main economic sectors as well as Mongolia and foreign listed companies operating in Mongolia. In order to provide capital market information to our clients regularly in a swift manner, we prepare reports and reviews on the following.

- Macro Economics
- Industry Research
- Coverage on Mongolian Stock exchange listed companies and internationally listed Mongolia focused companies
- Weekly Market Review
- Daily Trading Review

Asset Management

We aim to provide wealth management services to corporations and high-net-worth individuals to pursue their financial goals and achievements with investment management in equities, fixed income real assets, hedge funds, private equity and cash liquidity.

- Local corporations
- High net worth individuals



TREASURY MANAGEMENT

TREASURY MANAGEMENT

TDB is the main player in the financial market in Mongolia offering a wide range of foreign currency transactions and international money transfers, and leading the domestic market in foreign exchange, gold trading, and money market.

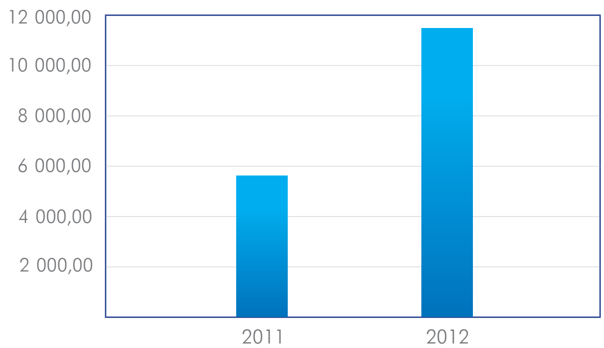
Total volume of foreign exchange transactions increased by 31.2 percent.

The foreign exchange rate is the major indicator of Mongolian economy. The rise and fall of foreign exchange rate can have negative or positive effects on economy. TDB achieved 31.2 percent increase in foreign currency trading as a result of substantial growth in the economy and foreign trade volume, maintaining its leading position in foreign exchange market in Mongolia. Also the strong customer growth and bank's policy to have most rational and flexible exchange rates had a positive impact on currency trading.

We consolidated our leading position in the gold-trading market.

TDB is a leading bank in domestic gold-trading market ever since it received the first commercial gold-trading license from the Bank of Mongolia. In 2012, TDB bought 1.4 tonnes of gold from 33 different gold mining companies. As the number of companies lost their special gold mining licenses, the volume of gold being deposited has been reduced. However, we held our leading position by attracting more new gold depositors.

We offer a variety of treasury management services to protect our customers from market volatility as the demand increases.



We actively participated in the domestic money market.

The decrease in reserve asset led us to focus on money market operations increasing the bank's liquidity. At the same time, we actively participated in trading of Central Bank securities and Government treasury bills. The continuous Investment in Medium Term Treasury bonds increased the size of government bond portfolio 5 times. Also TDB ensured its continuous compliance with the reserve requirement of Central Bank and other reserve ratio requirements. Moreover, cash and non-cash transactions have been executed on a timely manner as a result of successful performance of asset management.

RISK MANAGEMENT

RISK MANAGEMENT

Trade and Development Bank aims to increase its effectiveness by averting potential risks and losses. Therefore, it considers risk management as the most important factor. The bank has been in the leading position in applying newly set international standards on measuring and evaluating risk.

TDB is the first commercial bank approved by the Central Bank to evaluate foreign exchange risk using VaR measures. Thus, the Bank is applying those measures in its daily operations. In addition, TDB is also the first bank in Mongolia which applied a lender's risk assessment model.

Last year, TDB became a member of "International Qualified Risk Managers' Association" and worked to develop a governance and system of independent reporting in units in charge of risk and internal operation. Risk management of TDB is expanding in 3 different areas: credit risk management, market risk management and operational risk management.

Credit risk management

Following a banking regulation "Basel II" in all activities including developing credit policy and controlling its implementation, we saw great progress in mitigating risk. By implementing the risk management policy in 2012, TDB strengthened its credit portfolio in the framework of a good scheme of risk management. Furthermore, due to increased focus on loan payment, non performing loan rate in the credit portfolio dropped down to 1.4%. Last year, TDB gained an international experience by beginning to insure risky borrowers. The bank introduced the Loan Processing or LP program in cooperation with Authority of bank information technology. Thus, the decision-making process on loans has become easier and irregularities related to registration and manual operation were eliminated.

Market risk management

The constantly changing market environment should be analyzed and measured. TDB is the first Mongolian bank to introduce and implement the liquidity risk and interest rate risk management at the same time.

Professional teams run macroeconomic, foreign economic analysis, banking and financial sector's research, which support management's decision on loans and resources.

Based on BASEL II, III, released by Bank of Mongolia and BASEL Committee, and other international guidance, the bank has adjusted the liquidity risk management methods with international standards, which is related with bank's dignity, profitability and customer's trust. It's very important to predict liquidity risks, to minimize the sudden costs and opportunity costs.

Operational risk management

One of the biggest risks in banking sector is money laundering and financing terrorism. Thus, it is crutial for all the employees to know about methods to fight against them, and have full knowledge of international and local legislation. This risk could arise from accidental actions by employees. Therefore, TDB implements the policy against money laundering and financing terrorism, which meets international standards.

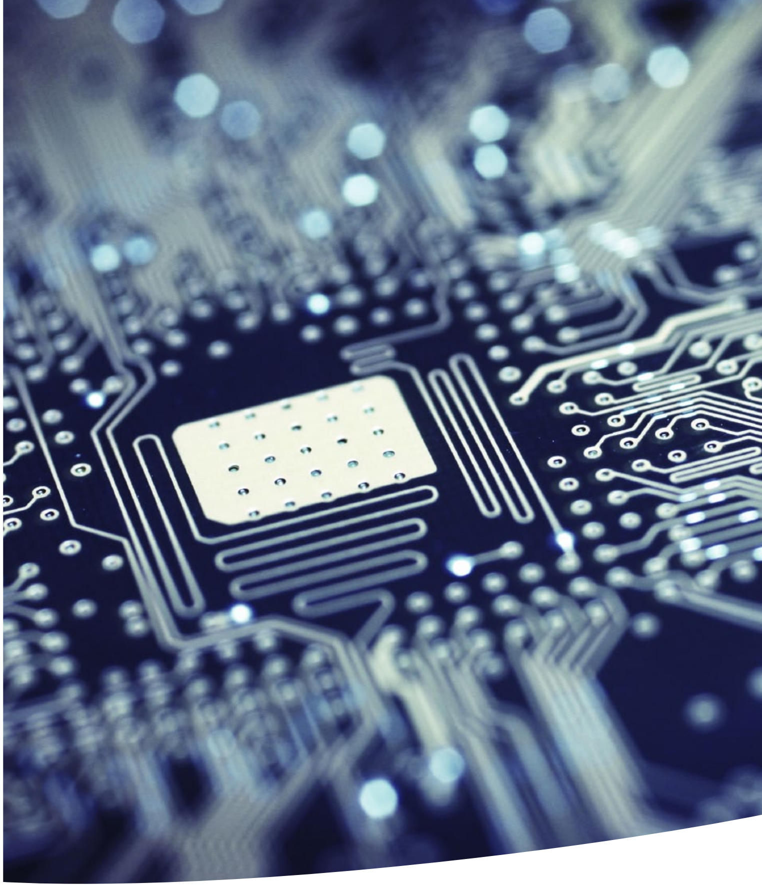
TDB entered into cooperation with PwC to implement comprehensive compliance programs taking initiatives to improve AML customer checking against Sanction Lists, develop AML Policy & Procedures and organize AML Training for all employees.

To further develop its Environmental and Social Management System, TDB has engaged PwC and FMO to assist in developing the bank's E&S Policy, procedures and tools, such that it complies with Mongolian environmental and social laws, international best practices and the bank's lenders.

TDB organized the campaign called "Renewing customer's information" among all branches of the bank to avoid risks based on customer's lack of information.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY



TDB is the pioneer Mongolian bank that provides new services to customers through the newest information technologies, which apply to internal operations and businesses.

TDB constantly makes investment to expand its information technology infrastructure paying special attention to information security and confidentiality by supplying its software needs internally.

Our information technology system is audited by international auditors and exceeds global standards

TDB reformed its IT department with 3 units and over 50 employees to meet our expansion of innovative services products and operations.

In 2012, Deloitte Onch, an international audit company, has audited TDB IT department on compliance with international standards and to identify required improvements.

According to auditor's report, TDB meets global standards; and compared to internationally known banks, TDB IT department scored average to above average. As a result, TDB planned to improve its operation according to the auditor's consultation in 2013.

To expand card service system and to provide a full technical support, TDB enlisted Khas Bank, State Bank, Capitron Bank, National Investment Bank, Chinggis Khan Bank to join a processing and switching system serving eight banks.

TDB introduced a new software that enforces anti-money laundering regulation at the global banks

TDB's subsidiary, TDB Capital developed and introduced PRIMARY REGISTRATION SYSTEM. The system was built with dynamic management functions and modules that have capabilities to conduct internal registration, customer, security and cash account, monitor, orders, limit, transaction, reports, customer's right management and user interface. It can automatically convert all information of account balances.

Thus, TDB has become the first Mongolian bank that introduced anti-money laundering software that is also implemented by the worlds prominent banks and financial institutions.

The Government initiated "The backing of banking" online project was successfully implemented by TDB. The Bank developed online tender software and introduced international transaction system SWIFT 7.0. With those new projects, we have been successfully improving our IT operating performance to the next level.

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES MANAGEMENT

WE SUPPORT THE TRUE ASPIRATION TO ACHIEVE ONE'S VISION

MISSION, DEVOTION, SUCCESS

Since its establishment, TDB strived to create its own unique "Organizational Culture" for the employees. It was one of most important human resources management policies and now it is adopted as "The culture of TDB" project.

In 2012, the bank organized essay writing and song lyrics competition, and a campaign called "Today's one hour is worth tomorrow's two hours" and training "Time Management and Ethics" in order to motivate its staff, promote "TDB culture" and implemented an array of other programs.

As the employees social welfare improves, career stability and efficiency increases, as well as the profitability and success of the company increases. TDB puts great focus on employees social welfare and implements a policy to make it better.

At employees request, the bank improved the terms of consumer loan and mortgage loan for employees. Moreover, automation and simplifying operations on loan application was also carried out in order to increase employees access to credit.

The bank raised its employees salary by 26 percent. In 2012, 820 employees received MNT 11 billion in soft loans, up 70 percent from a year earlier. 119 employees granted access to a soft loan and purchased homes.

Having expanded its operations, a demand for new employees at TDB has increased and the number of employees has risen to 1218 in 2012, or 21.3 percent from the previous year.

MAIN TRADE FINANCE PARTNERS

Asian Development Bank	ADB
ING Bank	ING
Korean Eximbank	Korea Eximbank
Commerzbank	COMMERZBANK
Sumitomo Mitsui Banking Corporation	SMBC SUMITOMO MITSUI BANKING CORPORATION
UniCredit Bank	UniCredit Bank
VTB	VTB
Industrial and Commercial Bank of China	ICBC
The Export-Import Bank of the Republic of China	The Export-Import Bank of the ROC
Russian Agricultural Bank	Russian Agricultural Bank
Agricultural Bank of China	中国农业银行 AGRICULTURAL BANK OF CHINA
BNP Paribas	BNP PARIBAS
Standart Chartered	Standard Chartered
Deutshce Bank	Deutsche Bank
Bank of China	中國銀行 BANK OF CHINA

CORRESPONDENT BANKS

NO.	BANK NAME	LOCATION	SWIFT	CURRENCY	ACCOUNT NO
1	AGRICULTURAL BANK OF CHINA	HUHHOT, CHINA	ABOCCNBJ050	USD	05710114040000937
2	STANDARD CHARTERED BANK	NEW YORK, USA	SCBLUS33		3582023404001
3	CITIBANK N.A.,	NEW YORK, USA	CITIUS33		36202093
4	HSBC BANK USA N.A	NEW YORK, USA	MRMDUS33		000304298
5	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM		001201442 USD 400202
6	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE		963-THR-287-01-1
7	CHINA CONSTRUCTION BANK	Huhhot, CHINA	PCBCCNBJNME		15014150509220100065
8	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA		0610040629200091076
9	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111840718000000007
10	BAO SHANG BANK	BAO TOU, CHINA	BTCBCNBJXXX		001638896800060
11	OCBC BANK	SINGAPORE	OCBCSGSG		503-071441-301
12	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111840900000000008
13	JSC VTB BANK	MOSCOW, RUSSIA	VTBRRUMM		30111840855550000000
14	HANA BANK	SEOUL, KOREA	HNBNKRSEXXX		06091000114631
15	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF		400878500800 USD
16	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	EUR	400878500801 EUR
17	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010		301-0104154-57-EUR
18	CREDIT SUISSE	ZURICH, SWITZERLAND	CRESCHZZ80A	CHF	0835-0993850-73-000
19	BANK OF TOKYO-MITSUBISHI UFJ LTD	TOKYO, JAPAN	BOTKJPJT	JPY	653-0439924
20	MIZUHO CORPORATE BANK LTD	TOKYO, JAPAN	MHCBJPJT		5793010
21	SUMITOMO MITSUI BANKING CORPORATION	TOKYO, JAPAN	SM-CJPJTXXX		5070
22	HSBC BANK PLC	LONDON, UNITED KINGDOM	MIDLGB22	GBP	00334567
23	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	KRW	0963 FRW 001000043
24	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	HUHHOT, CHINA	ABOCCNBJ050	CNY	05710101040021997
25	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	HUHHOT, CHINA	PCBCCNBJNME		15001658408052501192
26	BAO SHANG BANK	BAOTOU, CHINA	BTCBCNBJXXX		001638896800010
27	PUDONG DEVELOPMENT BANK OF SHANGHAI	SHANGHAI, CHINA	SPDB CNSH XXX		99010154100000100
28	BANK OF CHINA (HONG KONG) LIMTED	HONG KONG, CHINA	BKCHHKHH		012-875-60117544
29	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA		0610040629200090972
30	BANK OF CHINA, ERLIAN BRANCH	ERLIANHAOTE, CHINA	BKCHCNBJ89N		152418818188
31	HSBC BANK AUSTRALIA LTD	SYDNEY, AUSTRALIA	HKBAAU2S	AUD	011-795630-041
32	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	MELBOURNE, AUSTRA-LIA	ANZBAU3MXXX		921064AUD00001
33	CANADIAN IMPERIAL BANK OF COMMERCE	TORONTO, CANADA	CIBCCATT	CAD	1820613
34	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM	RUB	001201442 RUR 400202
35	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66		30111810918000000002
36	JSC VTB Bank	MOSCOW, RUSSIA	VTBRRUMM		30111810455550000203
37	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM		30111810800000000015
38	HONGKONG AND SHANGHAI BANKING CORPORATION LTD	AUCKLAND, NEW ZEALAND	HSBCNZ2A	NZD	040-013294-261
39	HANG SENG BANK LTD	HONG KONG	HASEHKHH	HKD	250-012796-001
40	OCBC BANK	SINGAPORE	OCBCSGSG	SGD	517-123360-001
41	NORDEA BANK AB	STOCKHOLM, SWEDEN	NDEASESS	SEK	39527705290 080502

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC
AND ITS SUBSIDIARY

Consolidated Financial Statements
31 December 2012 and 2011

(With Independent Auditors' Report Thereon)

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Trade and Development Bank of Mongolia LLC
Corporate Information

Registered office and principal place of business	Juulchny Street–7 Baga toiruu-12 Ulaanbaatar, Mongolia
Board of Directors	D.Erdenebileg (Chairman) R.Koppa Z.Shagdarsuren T.Tsolmon Ch.Enkhbold
Secretary of Bank	D. Davaajav
Independent auditors	KPMG Samjong Accounting Corp. Seoul, Korea

Statement by Directors and Executives

We, D. Erdenebileg, R. Koppa and B. Medree, being the directors and executives of Trade and Development Bank of Mongolia LLC (the “Bank”), and D. Yanjmaa, being the officer primarily responsible for the consolidated financial statements of the Bank and its subsidiary (together the “Group”), do hereby state that, in our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012 and 2011 and of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

D. Erdenebileg Director	R. Koppa President
B. Medree Chief Executive Officer	D. Yanjmaa Director of Financial Management and Control Department

Ulaanbaatar, Mongolia

Date : 18 March 2013

KPMG Samjong Accounting Corp.
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Center, 737 Yeoksam-dong
Gangnam-gu, Seoul 135-984
Republic of Korea

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Trade and Development Bank of Mongolia (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2012 and 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012 and 2011, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

Other Matter

This report is made solely to the members of the Bank, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG AUDIT
УЛААНБААТАР ХОТ

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
19 March 2013
Seoul, Korea

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY
Consolidated Statements of Financial Position
31 December 2012 and 2011

	Note	2012 MNT'000	2011 MNT'000
Assets			
Cash and due from banks	4	444,813,254	474,964,634
Investment securities	5	456,801,610	344,267,368
Investment in associates	6	2,385,599	2,275,956
Loans and advances, net	7	1,533,271,823	1,123,331,907
Bills purchased under resale agreements	8	-	36,966,114
Subordinated loans	9	7,000,000	7,000,000
Property and equipment, net	10	131,590,999	79,144,992
Intangible assets, net	11	601,831	433,398
Foreclosed real properties, net	12	157,148	579,190
Other assets	13	123,856,952	51,767,230
Total assets		2,700,479,216	2,120,730,789
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits from customers	14	1,402,326,763	1,277,295,962
Deposits and placements by banks and other financial institutions	15	36,518,483	35,063,555
Bills sold under repurchase agreements	16	1,495,638	171,484,469
Borrowings	17	232,964,084	174,380,516
Current taxes payable		2,481,600	1,501,188
Debt securities issued	18	600,525,865	207,134,041
Subordinated debt securities issued	19	55,528,846	41,693,522
Other liabilities	20	128,761,887	72,762,692
Total liabilities		2,460,603,166	1,981,315,945
Shareholders' equity:			
Share capital	21	16,525,280	6,610,113
Share premium		19,272,456	7,392,191
Treasury shares	22	(2,620,626)	(6,001,872)
Revaluation reserves	10	18,555,196	18,702,066
Accumulated unrealised gain on available-for-sale financial assets	5	25,807,646	3,736,050
Retained earnings		162,336,098	108,976,296
Total shareholders' equity		239,876,050	139,414,844
Total liabilities and shareholders' equity		2,700,479,216	2,120,730,789

The notes are an integral part of these consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2012 and 2011

	Note	2012 MNT'000	2011 MNT'000
Interest income	23	213,335,115	143,500,481
Interest expense	24	(137,432,198)	(95,359,061)
Net interest income		75,902,917	48,141,420
Net fees and commission income	25	16,399,523	12,134,233
Other operating income, net	26	14,303,110	14,176,216
Net non-interest income		30,702,633	26,310,449
Operating income		106,605,550	74,451,869
Operating expenses	27	(32,875,568)	(20,071,451)
Share of profit (loss) of an associate	6	(2,340,356)	74,955
Reversal of (provision for) impairment losses	28	6,554,436	(3,070,865)
Profit before tax		77,944,062	51,384,508
Income tax expense	30	(14,817,338)	(9,282,677)
Net profit for the year		63,126,724	42,101,831
Other comprehensive income for the year:			
Net unrealised change in fair value of available-for-sale financial assets	5	22,071,596	3,736,050
Net change in revaluation reserves of property and equipment	10	(146,870)	5,284,414
		21,924,726	9,020,464
Total comprehensive income		85,051,450	51,122,295

The notes are an integral part of these consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY
Consolidated Statements of Changes in Equity
For the years ended 31 December 2012 and 2011

	Note	Share capital MNT'000	Share premium MNT'000	Treasury shares MNT'000	Revaluation reserves MNT'000	Accumulated unrealised gain on available-for-sale financial assets MNT'000	Retained earnings MNT'000	Total MNT'000
1 January 2011		6,610,113	7,392,191	(6,001,872)	13,418,276	-	66,873,841	88,292,549
Net profit for the year		-	-	-	-	-	42,101,831	42,101,831
Net unrealised change in fair value of available-for-sale financial assets	5	-	-	-	-	3,736,050	-	3,736,050
Revaluation gain	10	-	-	-	5,284,414	-	-	5,284,414
Amount transferred to retained earnings	10	-	-	-	(624)	-	624	-
31 December 2011		6,610,113	7,392,191	(6,001,872)	18,702,066	3,736,050	108,976,296	139,414,844
1 January 2012		6,610,113	7,392,191	(6,001,872)	18,702,066	3,736,050	108,976,296	139,414,844
Net profit for the year		-	-	-	-	-	63,126,724	63,126,724
Net unrealised change in fair value of available-for-sale financial assets	5	-	-	-	-	22,071,596	-	22,071,596
Sale of treasury shares	22	-	11,880,265	3,381,246	-	-	-	15,261,511
Increase in par value of the shares	21	9,915,167	-	-	-	-	(9,915,167)	-
Amount transferred to retained earnings	10	-	-	-	(146,870)	-	148,245	1,375
31 December 2012		16,525,280	19,272,456	(2,620,626)	18,555,196	25,807,646	162,336,098	239,876,050

The notes are an integral part of these consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended 31 December 2012 and 2011

	Note	2012 MNT'000	2011 MNT'000
Cash flows from operating activities:			
Net profit		63,126,724	42,101,831
Adjustments for:			
Depreciation and amortisation	10, 11, 27	2,763,673	2,218,699
Share of loss (profit) of an associate	6	2,340,356	(74,955)
Net interest income	23, 24	(75,902,917)	(48,141,420)
Income tax expense	30	14,817,338	9,282,677
Loss (gain) on disposition of property and equipment		4,841	(351)
Property and equipment written off	27	28,716	302
Provision for (reversal of) impairment losses	28	(6,554,436)	3,070,865
Other operating income		(542,915)	-
Operating profit before changes in operating assets and liabilities		81,380	8,457,648
Increase in loans and advances	7	(405,634,813)	(662,841,490)
Decrease (increase) in bills purchased under resale agreement	8	36,966,114	(36,966,114)
Increase in other assets (*)	13	(60,851,432)	(12,562,070)
Increase in deposits from customers	14	125,030,801	357,351,213
Increase (decrease) in deposits and placements by banks and other financial institutions	15	1,454,928	(18,521,319)
Increase in other liabilities (*)	20	41,979,569	45,347,779
Increase in minimum regulatory reserve requirement with Bank of Mongolia	4, 32	(82,471,171)	(119,348,252)
Decrease in due from other financial instruments	32	3,613,520	2,949,865
Interest received		202,169,315	141,516,264
Interest paid		(121,796,735)	(87,418,713)
Income taxes paid		(13,836,926)	(9,263,463)
Net cash flows used in operating activities		(273,295,450)	(391,298,651)
Cash flows from investing activities:			
Purchase of investment securities	5	(87,988,975)	(85,431,472)
Purchase of property and equipment	10	(55,343,822)	(56,033,312)
Purchase of intangible assets	11	(490,317)	(264,336)
Proceeds from disposal of foreclosed real properties	12	669,505	1,283,019
Proceeds from disposal of property and equipment	10	422,469	252,000
Purchase of investment in an associate	6	(2,450,000)	(2,000,001)
Net cash flows used in investing activities		(145,181,140)	(142,194,103)

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

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows, continued

For the years ended 31 December 2012 and 2011

	Note	2012 MNT'000	2011 MNT'000
Cash flows from financing activities:			
Net proceeds from borrowings	17	58,583,568	123,702,369
Net proceeds from (repayment of) bills sold under repurchase agreements	16	(169,988,831)	171,484,469
Proceeds from debt securities issued	18	391,816,583	32,962,459
Proceeds from subordinated debt securities issued	19	13,794,728	10,441,893
Sale of treasury shares	22	15,261,511	-
Net cash flows provided by financing activities		309,467,559	338,591,190
Net decrease in cash and cash equivalents		(109,009,031)	(194,901,564)
Cash and cash equivalents at beginning of year		303,286,464	498,188,028
Cash and cash equivalents at end of year	32	194,277,433	303,286,464

The notes are an integral part of these consolidated financial statements.

1 Organisation and business

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

Pursuant to the aforementioned resolutions, license and charter, the Bank conducts banking activities such as cash savings, lending, handling and settlements of cash transfers, foreign currency transactions and other banking activities through its 22 branches and 23 settlement centers.

The Bank established TDB Capital LLC ("TDBC" or the "Subsidiary"), a wholly owned subsidiary, on 14 August 2008. TDBC is a Mongolian domiciled limited liability company incorporated in accordance with the Company Law of Mongolia and may be engaged in financial services activities within the parameters set forth in the Company Law, Civil Law and Law of Security Market of Mongolia and other relevant laws and regulations and those activities include, but are not limited to, brokerage and underwriting services to various customers. The accompanying consolidated financial statements as at and for the years ended 31 December 2011 and 2010 comprise the Bank and its subsidiary (together the "Group").

The direct parent company of the Group is Globull Investment and Development SCA ("Globull"), owns a 65.83% interest in the Group and is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC ("US Global"), which is incorporated in the United States of America. US Global is a consortium owned by Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Group), and it had directly owned approximately 7.32% of the Group. Therefore, US Global's ownership in the Group directly and indirectly through Globull amounted to approximately 73.14% as of 31 December 2012 and 2011. During 2012, the Group sold 157,862 treasury shares (or 4.78% interest) out of its total 283,877 treasury shares to a private investor. As a result, approximately 23.05% and 18.27% of the Group's total outstanding ordinary shares are owned by various individuals as of 31 December 2012 and 2011, respectively.

2 Basis of preparation

Statement of compliance

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

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 18 March 2013.

Basis of measurement

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

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

Functional and presentation currency

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

Use of estimates and judgments

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

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

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

2 Basis of preparation (continued)

New accounting standards adopted

(i) The amendments to IFRS 7 Financial Instruments: Disclosures

The Group has adopted the amendments to IFRS 7 Financial Instruments: Disclosures, effective 1 January 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety.

3 Significant accounting policies

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

Basis of consolidation

(i) Subsidiary

A subsidiary is an entity controlled by the Group and the financial statements of each subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Investment in an associate

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

Investment in an associate is accounted for using the equity method and is recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of an associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

Transactions in foreign currencies are translated to MNT at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are retranslated to MNT at the foreign exchange rate ruling at the consolidated statement of financial position date. Foreign exchange differences arising on translation are recognised in the consolidated statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to MNT at foreign exchange rates ruling at the dates that the fair values were determined.

(i) Classification

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

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

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

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

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

Available-for-sale assets are financial assets that are neither held for trading purposes, nor held to maturity.

(ii) Initial recognition

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

3 Significant accounting policies (continued)

Financial instruments (continued)

(iii) Subsequent measurement

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

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

Derecognition of financial assets and liabilities

(i) Financial assets

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

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

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

(ii) Financial liabilities

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

3 Significant accounting policies (continued)

Cash and cash equivalents

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

Property and equipment

(i) Recognition and subsequent measurement

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

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

(ii) Depreciation

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

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

Construction-in-progress

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

Intangible assets

(i) Acquired intangible assets

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

3 Significant accounting policies (continued)

Intangible assets (continued)

(ii) Amortisation

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

• Software and licenses	3 years

Impairment

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

(i) Originated loans and advances

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

In accordance with the BOM Provisioning Guidelines, the Group is required to determine the quality of loans and advances based on their qualitative factor and time characteristics in classifying them and determining provisions. Such a model classifies the Group’s loans and establishes allowances for loan losses at the rates of 0%, 5%, 25%, 50% and 100%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. Under IFRS, impairment or uncollectibility of financial assets measured at amortized cost shall be measured at the difference between the carrying amount and the net present value of future cash flows discounted at the financial asset’s original effective interest rate.

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

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

3 Significant accounting policies (continued)

Impairment (continued)

(ii) Assets other than loans and advances and cash and cash equivalents

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

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

Repurchase agreements

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

Share capital

(i) Ordinary shares

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

(ii) Treasury shares

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

3 Significant accounting policies (continued)

Provisions

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

Segment reporting

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

Revenue

(i) Interest income

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

(ii) Fee and commission income

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

(iii) Rental income

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

Operating lease payments

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

3 Significant accounting policies (continued)

Income tax

Income tax expense is comprised of current tax only.

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

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

Employee benefits

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

Dividends

Dividends are recognised as a liability in the period in which they are declared.

New standards and interpretations not yet adopted

A number of new IFRS, amendments to IFRS and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing the accompanying consolidated financial statements:

- In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are effective for annual periods beginning on or after 1 July 2012, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on presentation of its consolidated financial statements.

- In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, a revised version of IAS 27 *Separate Financial Statements* which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements, and a revised version of IAS 28 *Investment in Associates and Joint Ventures* which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Each of the standards are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted as long as each of the other standards are also early applied. However, entities are permitted to include any of the disclosure requirements in IFRS 12 into their consolidated financial statements without early adopting IFRS 12. The Group is currently evaluating the potential impact that the adoption of the standards will have on its consolidated financial statements.

- In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* which establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 provides a revised definition of fair value and guidance on how it should be applied where its use is already required or permitted by other standards within IFRS and introduces more comprehensive disclosure requirements on fair value measurement. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

4 Cash and due from banks

	2012 MNT'000	2011 MNT'000
Cash on hand	55,558,591	50,082,881
Deposits and placements with banks and other financial institutions	138,718,842	168,120,730
Balances with BOM (*)	250,535,821	256,761,023
	444,813,254	474,964,634

* At 31 December 2012, BOM requires that a minimum 12% of average customer deposits for two weeks (11% at 31 December 2011) must be maintained with BOM. In relation to the daily requirement, the Group also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2012 and 2011, the required reserve amount was MNT 255,054,560 thousand and MNT 168,064,650 thousand, respectively.

5 Investment securities

	2012 MNT'000	2011 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost (*1)	1,527,104	14,136,462
Equity securities, at fair value (*2)	47,462,745	24,846,858
BOM treasury bills (*3)	46,183,485	199,298,305
	95,173,334	238,281,625
Held-to-maturity investment securities		
Government bonds	359,931,276	103,332,743
Asset-backed securities (*4)	1,697,000	2,653,000
	361,628,276	105,985,743
	456,801,610	344,267,368

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

(*2) During 2012 the Group acquired equity securities of an investee and classified them as available-for-sale investment securities. As of 31 December 2012 an unrealised gain of MNT 22,071,596 thousand arising from changes in the fair value of such investment was recognised directly in equity as other comprehensive income. The levels within the fair value hierarchy in which the fair value measurement of such equity securities fall are MNT 2,264,827 thousand of Level 1 and MNT 42,933,091 thousand of Level 3 at 31 December 2012.

5 Investment securities (continued)

(*3) The Group classified BOM treasury bills as available-for-sale investment securities as the Group has positive intent to sell them before maturity. As of 31 December 2012 and 31 December 2011, the fair value of BOM treasury bills approximated their carrying value, resulting in no unrealised gain or loss. The level within the fair value hierarchy in which the fair value measurement of BOM treasury bills falls is Level 2, at 31 December 2012.

(*4) Asset-backed securities mainly represent notes issued by Mongolian Mortgage Corporation LLC ("MMC").

6 Investment in an associate

	2012 MNT'000	2011 MNT'000
Investment in MMC(*1)	2,385,599	2,275,956
Investment in TDB Media(*2)	-	-

(*1) In 2009, the Group made a MNT 201,000 thousand investment acquiring approximately a 9.1% equity interest in MMC, which was previously included in investment securities as of 31 December 2010. The Group made an additional investment of MNT 2,000,001 thousand on 4 August 2011. As a result of this transaction, the Group's ownership interest in MMC increased to approximately 31.6%. Effective 4 August 2011, the Group accounts for the investment in MMC under the equity method and recognised its share of profit of MMC of MNT 109,644 and MNT 74,955 thousand in 2012 and 2011, respectively. MMC is currently engaged in acquiring mortgage loans issued by commercial banks and securitizing these mortgages by issuing mortgage backed securities.

(*2) In 2012, the Group entered into a MNT 2,450,000 thousand investment acquiring a 49% equity interest in TDB Media. The Group recognised its share of loss of TDB Media of MNT 2,450,000 in 2012. In applying the equity method, the Group used the financial information of TDB Media as of 31 December 2012.

Condensed financial statements of associates as of 31 December 2012 and 31 December 2011, and for the years ended 31 December 2012 and 2011 were as follows:

	2012 MNT'000		2011 MNT'000	
Investees	Asset	Liability	Asset	Liability
Mongolian Mortgage Corporation	18,344,787	10,809,499	11,582,366	4,389,081
TDB Media	4,382,508	4,396,561	-	-

	2012 MNT'000		2011 MNT'000	
Investees	Operating revenue	Net income	Operating revenue	Net income
Mongolian Mortgage Corporation	2,362,788	427,121	1,101,881	125,841
TDB Media	40,356	(5,024,054)	-	-

7 Loans and advances

	2012 MNT'000	2011 MNT'000
Loans and advances to customers	1,530,158,608	1,131,816,506
Loans to executives, directors and staffs	16,605,055	9,435,210
	1,546,763,663	1,141,251,716
Allowance for loan losses	(13,491,840)	(17,919,809)
Net loans and advances	1,533,271,823	1,123,331,907

Movements in the allowance for loan losses for the years ended 31 December 2012 and 2011 were as follows:

	2012 MNT'000	2011 MNT'000
At 1 January	17,919,809	14,003,824
Charges (recoveries) for the year, net	(4,305,104)	3,976,213
Written off	(122,865)	(60,228)
At 31 December	13,491,840	17,919,809

At 31 December 2012 and 2011, MNT 842,460,378 thousand and MNT 556,851,619 thousand of loans and advances are expected to be recovered in more than 12 months after the reporting date.

Transfers of mortgage portfolios

In 2008, the Group transferred its mortgage loans with carrying amounts of MNT 404,864,410 or USD 294,334 to MMC in exchange for cash. In 2009, the Group transferred another pool of mortgage loans with carrying amounts of MNT 4,700,819,887 in exchange for the bonds issued by MMC. There were no mortgage portfolios transferred to MMC after 2009.

The loans were transferred on a recourse basis and do not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to MMC. Recourse condition, as stipulated in the respective loan purchase agreements, requires the Group to exchange previously transferred mortgage loan to MMC with a performing loan in case of default. Accordingly, the Group accounted for these transactions as collateralized financing.

The carrying amounts and fair value of the transferred assets and the associated liabilities as of 31 December 2012 and 2011 were as follows:

	2012 MNT'000	2011 MNT'000
Carrying amount		
Transferred assets	1,531,618	2,197,608
Associated liabilities	(1,531,618)	(2,197,608)
Fair value		
Transferred assets	1,693,222	2,397,445
Associated liabilities	(1,693,222)	(2,397,445)
Net Position	-	-

8 Bills purchased under resale agreements

Contract party	Purchase date	Maturity	Interest rate	2012 MNT'000	2011 MNT'000
Ulaanbaatar City Bank ("UB City Bank")	30 Dec 2011	2 Jan 2012	11%	-	36,966,114

At 30 December 2011, the Group entered into reverse repurchase agreements with UB City Bank where the Group purchased BOM treasury bills under resale agreements at MNT 37,000,000 thousand at maturity. The purchased securities are collateralized for the receivables pertaining to the respective agreements. The Group had no bills purchased under resale agreement at 31 December 2012.

9 Subordinated loans

	2012 MNT'000	2011 MNT'000
UB City Bank	4,000,000	4,000,000
Capitron Bank	3,000,000	3,000,000
	7,000,000	7,000,000

The loan to UB City Bank bears fixed interest of 8% per annum and is to be repaid in full on 25 September 2017. The loan to Capitron Bank bears interest of 12% per annum and is to be repaid in full on 24 August 2014.

10 Property and equipment

Property and equipment as of 31 December 2012 and 2011 were as follows:

31 December 2012

(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/revaluation					
At cost	5,157,931	4,858,084	5,507,828	52,329,613	67,853,456
At revaluation	18,555,196	-	146,870	-	18,702,066
At 1 January 2012	23,713,127	4,858,084	5,654,698	52,329,613	86,555,522
Additions	28,395,617	1,039,864	3,357,649	22,550,692	55,343,822
Disposals	-	(326,572)	(330)	(220,018)	(546,920)
Write offs	(1,752,037)	(192,843)	(319,347)	-	(2,264,227)
Transfers	-	-	-	-	-
Revaluation surplus	-	-	-	-	-
At 31 December 2012	50,356,707	5,378,533	8,692,670	74,660,287	139,088,197
Representing items at:					
Cost	31,801,511	5,378,533	8,692,670	74,660,287	120,533,001
Revaluation	18,555,196	-	-	-	18,555,196
	50,356,707	5,378,533	8,692,670	74,660,287	139,088,197
Accumulated depreciation					
At 1 January 2012	1,752,037	2,027,008	3,631,485	-	7,410,530
Charge for the year	974,265	466,489	1,001,035	-	2,441,789
Disposals	-	(119,463)	(147)	-	(119,610)
Write-offs	(1,752,037)	(178,039)	(305,435)	-	(2,235,511)
At 31 December 2012	974,265	2,195,995	4,326,938	-	7,497,198
Carrying amounts					
At 31 December 2012	49,382,442	3,182,538	4,365,732	74,660,287	131,590,999

10 Property and equipment (continued)

31 December 2011

(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/valuation					
At cost	4,007,918	3,820,957	4,073,437	336,651	12,238,963
At revaluation	13,271,406	-	146,870	-	13,418,276
At 1 January 2011	17,279,324	3,820,957	4,220,307	336,651	25,657,239
Additions	1,472,719	1,037,127	1,434,721	52,088,745	56,033,312
Disposals	(275,209)	-	-	-	(275,209)
Write-offs	-	-	(330)	-	(330)
Transfers	95,783	-	-	(95,783)	-
Revaluation surplus	5,140,510	-	-	-	5,140,510
At 31 December 2011	23,713,127	4,858,084	5,654,698	52,329,613	86,555,522
Representing items at:					
Cost	5,157,931	4,858,084	5,507,828	52,329,613	67,853,456
Revaluation	18,555,196	-	146,870	-	18,702,066
	23,713,127	4,858,084	5,654,698	52,329,613	86,555,522
Accumulated depreciation					
At 1 January 2011	1,281,970	1,614,474	2,949,711	-	5,846,155
Charge for the year	637,531	412,534	681,802	-	1,731,867
Disposals	(23,559)	-	-	-	(23,559)
Write-offs	-	-	(28)	-	(28)
Revaluation surplus	(143,905)	-	-	-	(143,905)
At 31 December 2011	1,752,037	2,027,008	3,631,485	-	7,410,530
Carrying amounts					
At 31 December 2011	21,961,090	2,831,076	2,023,213	52,329,613	79,144,992

The Group disposed an apartment unit and computers in 2012 and 2011, respectively. Revaluation surplus of MNT 146,870 thousand and MNT 624 thousand were released into retained earnings in 2012 and 2011 upon disposal or write-off, respectively.

Construction-in-progress account primarily represents costs for construction of the Group's office building in Ulaanbaatar, Mongolia. The construction of the Group's office building commenced during the second quarter of 2011 and is expected to be completed during the fourth quarter of 2013. There were no capitalized borrowing costs related to the acquisition of property and equipment during 2012 and 2011.

10 Property and equipment (continued)

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

Date of valuation	Description of property	Valuation amount	Basis of valuation
31 October 2008	Buildings	17,076,514	Market value
31 December 2011	Buildings	21,961,090	Market value

If the revalued property and equipment had been carried at historical cost less accumulated depreciation, the carrying amounts of the revalued assets that would have been included in the consolidated financial statements as of 31 December 2012 and 2011 would be as follows:

	2012 MNT'000	2011 MNT'000
Buildings	33,456,513	3,833,704

11 Intangible assets

	2012 MNT'000	2011 MNT'000
Cost		
At 1 January	2,781,462	2,517,126
Additions	490,317	264,336
At 31 December	3,271,779	2,781,462
Amortization		
At 1 January	2,348,064	1,861,232
Amortization charge for the year	321,884	486,832
At 31 December	2,669,948	2,348,064
Carrying amounts		
At 31 December	601,831	433,398

Intangible assets consist of only purchased software.

12 Foreclosed real properties

	2012 MNT'000	2011 MNT'000
Industrial buildings	26,500	26,500
Apartment buildings	136,426	812,269
Less: Allowances	(5,778)	(259,579)
	157,148	579,190

Properties acquired through foreclosure are initially recognized at fair value, recorded as foreclosed properties and are held for sale. The allowance is subsequently estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and Ministry of Finance. Such a model classifies the Group's foreclosed properties based on time characteristics and makes allowances at the rates of 0%, 5%, 25%, 50% and 100% for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. During 2012 and 2011, an allowance of MNT 247,463 thousand and MNT 884,864 thousand were written back upon disposition of foreclosed real properties, respectively, and foreclosed real properties amounting to nil and MNT 82,157 thousand, respectively, were written off against impairment losses.

13 Other assets

	2012 MNT'000	2011 MNT'000
Precious metals(*1)	25,033,389	31,151
Accrued interest receivables	24,165,543	14,929,123
Prepayments(*2)	805,450	4,439,151
Inventory supplies	829,933	490,954
Spot trading receivables(*3)	65,414,600	30,691,100
Other receivables, net	7,608,037	1,185,751
	123,856,952	51,767,230

Other receivables are presented net of impairment losses amounting to MNT 153,689 thousand and MNT 2,156,497 thousand as of 31 December 2012 and 2011, respectively.

(*1) On 28 December 2012, the Group purchased MNT 23,842,597 thousand worth of gold bars which the Group had been holding as collateral against loans to a borrower.

(*2) Included in prepayments as of 31 December 2011 were USD 3,000,000 (MNT 3,502,950 thousand) related to the Group's investment in Ulaanbaatar City Bank (UB City Bank) for acquiring 800 shares or 10% of the total outstanding shares of UB City Bank in April 2008, which was not approved by BOM. In 2012, the same amount of prepayment was repaid due to withdrawal of the acquisition plan.

(*3) Spot trading receivables and payables had been presented by net amount as of 31 December 2011. However, only a spot contract which has a legally enforceable right to set off and intends to settle on a net basis shall be presented by net amount. The Group presents spot trading receivables and payables which do not meet the above mentioned conditions as gross amount as of 31 December 2012 and 2011.

14 Deposits from customers

	2012 MNT'000	2011 MNT'000
Current accounts	599,471,005	524,418,099
Savings deposits	200,121,416	206,263,343
Time deposits	579,734,505	534,258,396
Other deposits	22,999,837	12,356,124
	1,402,326,763	1,277,295,962

Current accounts and other deposits generally bear no interest. However, for depositors maintaining current account balances above the prescribed limit, interest is provided at rates of approximately 1.2% and 3.35% (2011: 1.5% and 3.4%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 2.0% and 6.5% (2011: 1.9% and 6.3%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.7% and 12.5% (2011: 6.5% and 12.3%), respectively.

15 Deposits and placements by banks and other financial institutions

	2012 MNT'000	2011 MNT'000
Current accounts deposits:		
Foreign currency deposits	13,641,083	12,361,181
Local currency deposits	88,608	99,390
Foreign currency cheques for selling	223,737	249,214
Deposits from banks	22,565,055	22,353,770
	36,518,483	35,063,555

16 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2012 MNT'000	2011 MNT'000
Credit bank	26 Dec 2012	2 Jan 2013	15.00%	1,495,638	-
BOM	28 Dec 2011	2 Jan 2012	16.25%	-	66,816,502
BOM	28 Dec 2011	3 Jan 2012	16.25%	-	39,314,997
BOM	30 Dec 2011	2 Jan 2012	16.25%	-	65,352,970-
				1,495,638	171,484,469

In 2012 and 2011, the Group entered into repurchase agreements with Credit bank and BOM, respectively, where the Group sold BOM treasury bills and government bond under repurchase agreements at aggregate amounts of MNT 1,500 thousand and MNT 177,000,000 thousand, respectively, at various maturities. The securities sold are collateralized for the payables pertaining to the respective agreements.

17 Borrowings

	2012 MNT'000	2011 MNT'000
Kreditanstalt fuer Wiederaufbau	5,396,917	3,457,600
World Bank	4,841,873	6,674,634
Asian Development Bank	1,518,287	1,139,259
International Development Association	731,879	750,880
Export-Import Bank of Korea	22,154,841	18,094,576
VTB Bank Austria	10,440,750	50,548,594
Export-Import Bank of Republic of China	694,809	148,118
Japan International Cooperation Agency	17,044,943	6,640,131
Atlantic Forfaitierungs AG	4,518,726	3,265,411
SME Project Fund from MoF	71,457,399	74,217,691
Commerzbank AG	1,850,613	2,228,909
Industrial and Commercial Bank of China	6,120,880	740,110
ING Bank	5,955,455	848,337
Baoshang Bank	1,912,513	3,428,658
MMC	1,531,618	2,197,608
Sumitomo Mitsui Banking Corporation	951,390	-
Netherlands Development Finance Company	13,921,000	-
Bank of China (Hong Kong) Ltd	550,381	-
Mongolian Stock Exchange	1,643,658	-
China Trade Solutions	78,310	-
BOM sub project	52,730,928	-
Standard Chartered Bank	6,876,914	-
	232,964,084	174,380,516

Kreditanstalt fuer Wiederaufbau ("KfW")

In 2002, the Group entered into a Loan and Financing Agreement with KfW, under which the Group can borrow up to EUR 4,345,981 from KfW via BOM as a Programme-Executing Agency for mainly providing financing to various small and medium customers at preferential interest rates. The outstanding KfW loan amounted to EUR 2,939,770 and EUR 1,913,702 at 31 December 2012 and 2011, respectively. The loan matures in June 2042 and bears interest at a fixed rate of 1.25% per annum, of which 0.75% is payable to KfW and 0.50% to BOM. Principal repayment is on a semi-annual basis, and the repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

World Bank

	2012 MNT'000	2011 MNT'000
Loan I	24,568	80,498
Loan II	4,817,305	6,594,136
	4,841,873	6,674,634

17 Borrowings (continued)

Loan I

In 2003, the Group entered into the Project Agreement with World Bank under the World Bank Training Program via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development programme, including credit management system renewal, staff training, provision of equipment and consultants' services. The outstanding World Bank loan under this program amounted to USD 17,648 and USD 57,648 at 31 December 2012 and 2011, respectively. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in December 2024.

Loan II

Loan II comprises the following loans:

(a) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 1,867,192 and USD 2,897,219 at 31 December 2012 and 2011, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum (1.54% at 31 December 2012). The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Group can also borrow amounts in various currencies including in Togrog up to Special Drawing Rights (SDR) 6,250,000 from the World Bank via the Ministry of Finance to finance specific investment projects through the provision of sub-loans. The outstanding World Bank MNT loan amounted to approximately MNT 1,877 million and MNT 2,178 million at 31 December 2012 and 2011, respectively. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (6.18% at 31 December 2012). The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2006, the Group obtained a USD loan in the amount of USD 300,000 from the World Bank under the World Bank Training Program loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development program, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this program amounted to USD 245,151 and USD 265,212 at 31 December 2012 and 2011, respectively. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in May 2025.

17 Borrowings (continued)

Asian Development Bank ("ADB")

ADB Loan is comprised of the following loans:

(a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information system. The outstanding loan amounted to USD 84,970 and USD 89,442 at 31 December 2012 and 2011, respectively. The loan matures in 2031 and bears interest at a fixed rate of 1% per annum and is repayable in 30 annual installments which commenced in 2002.

(b) In 2011, the Group entered into a Finance Agreement with ADB, under which the Group can borrow up to USD 11,000,000 from ADB via the Ministry of Finance to provide loans exclusively to customers who need to finance the cost of goods, works, and consulting services required to carry out Value Chain Development ("VCD") subprojects. The sub-loan matures in June 2018 and bears interest at a fixed rate of up to 12% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(c) Under the Finance Agreement as described in (b) above, the Group can also borrow amounts in MNT. The outstanding MNT loan amounted to approximately MNT 1,400 million as of 31 December 2012.

International Development Association ("IDA")

In 1998, the Group obtained a USD loan in the amount of USD 600,000 from IDA to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), under which NBR had transferred operational knowhow and technical skills to the Group. The outstanding IDA loan amounted to USD 525,737 and USD 537,737 at 31 December 2012 and 2011, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective April 2011, the maximum amount of facility increased to USD 20,000,000. The outstanding borrowings under this line of credit agreement amounted to USD 15,914,691 and USD 12,958,297 at 31 December 2012 and 2011, respectively. This line of credit expires in July 2012, and the interest of this particular loan varies with each drawdown, which is determined by KEXIM. The Group shall repay KEXIM the principal amount of each disbursement on the last day of each financing period.

In July 2012, the Group renewed the Comprehensive Interbank Export Credit Agreement with KEXIM under which the maximum amount of facility increased to USD 30,000,000 from USD 20,000,000. The renewed line of credit expires in July 2014.

17 Borrowings (continued)

VTB Bank (Austria) AG ("VTB")

	2012 MNT'000	2011 MNT'000
Risk Participation I	-	1,675,644
Risk Participation II	-	20,945,550
Risk Participation V	-	13,963,700
Risk Participation IV	10,440,750	13,963,700
	10,440,750	50,548,594

The Group and VTB entered into various participation agreements, under which the VTB loans were extended to other borrowers. Under these participation agreements, VTB is at its sole risk and has no right of recourse against the Group for any loss it incurs as a result of default by the borrower. These loans bear interest at fixed rates ranging from 8% to 9% per annum.

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

In 2004, the Group entered into Relending facility with TEXIM under which the Group could borrow up to USD 6,000,000 for relending purposes to finance customers who purchase machinery and other manufactured goods produced in Taiwan. The outstanding borrowings under agreement amounted to USD 499,108 and USD 106,073 at 31 December 2012 and 2011, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1.25% per year. The agreement was extended to January 2014.

Japan International Cooperation Agency ("JICA")

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

(a) In 2006, the Group entered into a Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT up to the amount equivalent to JPY 2,981,000,000 from JICA via the Ministry of Finance which was channelled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development or Environmental Protection. The outstanding USD loan amounted to USD 352,500 and USD 377,000 at 31 December 2012 and 2011, respectively. The loan matures in March 2019 and bears interest at six-month LIBOR USD rate plus a margin of 1% per annum (1.7% at 31 December 2012). The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) Under the Loan Financing Agreement as described in (a) above, the outstanding MNT loan amounted to approximately MNT 878 million and MNT 1,179 million at 31 December 2012 and 2011, respectively. The MNT loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (4% at 31 December 2012).

(c) In 2011, the Group entered into another Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT up to the amount equivalent to JPY 5,000,000,000 from JICA via the Ministry of Finance which was channelled to various borrowers for the second phase of developing SME Development or Environmental Protection purposes. The outstanding MNT loan amounted to approximately USD 930,000 and MNT 14,382 million at 31 December 2012. The loan matures in November 2022 and bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months (USD 1.7% and MNT 4% at 31 December 2012). The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

17 Borrowings (continued)

Atlantic Forfaitierungs AG ("AF")

In 2009, the Group entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. The outstanding USD loan amounted to USD 3,245,978 and USD 2,338,500 at 31 December 2012 and 2011, respectively. The loan matures in February 2014. Interest is payable on a semi-annual basis, and principle repayment is due at maturity.

SME Project Fund MoF

SME Project Fund MoF comprises the following loans:

(a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30 billion for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60 billion and MNT 150 billion, respectively. This credit facility expires in June 2016 and bears interest at a fixed rate of 7.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 19,318 million and MNT 20,471 million at 31 December 2012 and 2011, respectively.

(b) In October 2011, the Group signed the second credit facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of Wool and Cashmere sector development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 150 billion for this facility. This credit facility agreement expires in October 2016 and bears interest at a fixed rate of 7.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 52,139 million at 31 December 2012.

Commerzbank AG

In 2011, the Group entered into an Uncommitted Bilateral Trade Finance Facility Master Agreement with Commerzbank AG for the purpose of relending to customers to finance import and export transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this facility agreement, the Group has outstanding loans of USD 1,329,368 at 31 December 2012, maturing in January and February 2013, respectively.

Industrial and Commercial Bank of China ("ICBC")

In 2012, the Group obtained a USD loan in the amount of USD 4,396,868 from ICBC to promote imports from China. This loan matures in June 2013 and bears interest as defined by the Central Bank of China on a case by case basis.

ING Bank

In 2011, the Group obtained trade finance line with ING Bank under which the Group could borrow up to EUR 15,000,000 for relending purposes or confirmations of LC. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the group and the customer on a case by case basis. Under this trade finance facility, the Group has outstanding loans of USD 4,306,770 and USD 607,530 at 31 December 2012 and 2011, respectively. The loan matures in April 2013.

17 Borrowings (continued)

Baoshang Bank

The Group entered into various facility agreements with Baoshang Bank, under which the Baoshang Bank loans were extended to other borrowers. At 31 December 2012, the Group has the following loans under this facility:

(a) The Group obtained a USD loan totaling USD 720,036 which was extended to various corporate customers. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) The Group obtained a CNY loan in the amount of CNY 4,074,272. This facility expires in May 2013.

MMC

The Group transferred certain mortgage portfolios to MMC in prior years on a recourse basis and determined that the transfer did not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to MMC. Accordingly, the Group accounted for these transactions as collateralized financing. See note 7 for further details of the transactions. There were no additional mortgage portfolios transferred to MMC after 2009.

Sumitomo Mitsui Banking Corporation ("SMBC")

In March 2012, the Group entered into a Refinancing Letter of Credit Facilities Agreement with SMBC under which the Group can borrow up to USD 15,000,000. The maturity dates and interest for the facilities vary in accordance with the tenor of each advance.

Netherlands Development Finance Company (“FMO”)

FMO Loan is comprised of the following loans:

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

(b) In June 2012, the Group entered into a Subordinated Term Facility Agreement with FMO under which the Group can borrow up to USD 10,000,000. The facility which is subject to an approval of the Central Bank and to the greatest extent permitted under the subordinated clause of the agreement shall be treated by the Group as Tier 2 Capital. The Group has outstanding borrowings of USD 10,000,000 at 31 December 2012. The Group has an option to pay interest at a fixed or floating interest rate. The facility is repayable in full in June 2017.

Bank of China (Hong Kong) Ltd

In March 2012, the Group entered into a Short-Term Trade Finance Facilities Agreement with Bank of China (Hong Kong) Ltd. The maturity dates and interest for the facilities vary in accordance with the tenor of each advance. At 31 December 2012 the Group obtained a USD loan totaling USD 395,360 which was extended to various corporate customers.

17 Borrowings (continued)

Mongolian Stock Exchange

The Group arranged syndicated Loan to Mongolian Stock Exchange with participation of Mongolian commercial banks. At 31 December 2012, the Group has arranged following loans under this facility:

(a) Total participation of commercial banks is loan amount is USD 1,180,704.

(b) This loan matures in May 2014 and bears interest at a fixed rate of 6.5% per annum

China Trade Solutions

In December 2012, the Group entered into a Short-Term Trade Finance Facilities Agreement with China Trade Solutions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. This loan matures in May 2013.

Bank of Mongolia sub project

In December 2012, the Group entered into credit facility loan agreements with the Government of Mongolia concluding with Bank of Mongolia Midterm Sub-program Memorandum named "To stabilize price of basic commodities and products". Relating to the above Sub-program, Shunkhlai LLC, Magnai trade LLC, Baataruud tenger LLC and Ulaanbaatar guril LLC have taken loans to import the petroleum product and prepare wheat and meat. The outstanding Bank of Mongolia loan amounted to MNT 52,730,928 thousand at 31 December 2012, respectively. The loan matures in December 2012 and bears interest at a fixed rate of 0.89% per annum.

Standard Chartered Bank

In May 2012, the Group entered into a USD 5,000,000 Facility Agreement with Standard Chartered Bank under which the Group utilizes the facility to on-lend the proceeds to gold producers in Mongolia. This loan matures in May 2013.

18 Debt securities issued

	2012 MNT'000	2011 MNT'000
Debt securities issued, at amortized cost	600,525,865	207,134,041

On 25 October 2010, the Group issued USD 150,000,000 senior notes due on 25 October 2013 at a price of 99.353% under its USD 300,000,000 Euro Medium Term Note ("EMTN") Programme which was launched on 9 October 2010. These bonds bear interest at 8.5% per annum payable semi-annually. The Group is also obligated to bear withholding tax of 5% of the amount of interest expenses paid to the investors on its senior notes in accordance with the double tax treaty between Mongolia and Singapore, and these additional cash outflows effectively increase actual interest rates for the notes.

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

During 2012 and 2011, the respective debt securities accreted by MNT 1,575,241 thousand and MNT 891,301 thousand, respectively, using the effective interest method.

19 Subordinated debt securities issued

	2012 MNT'000	2011 MNT'000
Subordinated debt, at amortized cost	55,528,846	41,693,522

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

During 2012 and 2011, the respective debt securities accreted by MNT 40,596 thousand and MNT 33,091 thousand, respectively, using the effective interest method.

20 Other liabilities

	2012 MNT'000	2011 MNT'000
Accrued interest payables	37,219,386	23,199,760
Delay on clearing settlement	16,023,299	14,215,203
Spot trading payables	65,414,600	30,691,100
Other payables	9,738,657	4,290,684
Dividends payable	365,945	365,945
	128,761,887	72,762,692

21 Share capital

	Number of ordinary shares 2012	Number of ordinary shares 2011	2012 MNT'000	2011 MNT'000
At 1 January	3,305,056	3,305,056	16,525,280	6,610,113
Issued during the year	-	-	-	-
At 31 December	3,305,056	3,305,056	16,525,280	6,610,113

At 31 December 2012 and 2011, 3,305,056 shares were issued and outstanding out of the total 4,000,000 authorized shares. During 2012, the Group increased the par value of its shares to MNT 5,000. All issued shares were fully paid and have a par value of MNT 5,000 and MNT 2,000 as of 31 December 2012 and 2011, respectively.

22 Treasury shares

	2012 MNT'000	2011 MNT'000
At 1 January	6,001,872	6,001,872
Sale of treasury shares	(3,381,246)	-
At 31 December	2,620,626	6,001,872

February 2012, the Group sold treasury shares (4.78% of outstanding ordinary shares) to a private investor. The outstanding treasury shares were 126,015 and 283,877 shares, representing approximately 3.81% and 8.59% of the total issued and outstanding ordinary shares as of 31 December 2012 and 2011, respectively.

23 Interest income

	2012 MNT'000	2011 MNT'000
Loans and advances	189,057,696	108,869,075
Investment securities	19,612,388	29,252,203
Deposits and placements with banks and other financial institutions	3,633,885	4,559,357
Bills purchased under resale agreements	345,715	133,183
Subordinated loans	685,431	686,663
	213,335,115	143,500,481

24 Interest expense

	2012 MNT'000	2011 MNT'000
Deposits	84,561,895	68,489,599
Borrowings	8,354,075	4,059,540
Bills sold under repurchase agreements	8,480,522	1,128,593
Debt securities issued	30,177,065	17,052,569
Subordinated debt securities issued	5,858,641	4,628,760
	137,432,198	95,359,061

25 Net fees and commission income

	2012 MNT'000	2011 MNT'000
Fees and commission income		
Wire transfer	4,731,504	3,742,399
Card service	5,561,809	3,385,622
Loan related service	7,136,229	5,575,020
Others	1,037,807	543,779
Total fee and commission income	18,467,349	13,246,820
Fees and commission expenses		
Card service expense	1,446,489	915,184
Others	621,337	197,403
Total fees and commission expenses	2,067,826	1,112,587
Net fees and commission income	16,399,523	12,134,233

26 Other operating income, net

	2012 MNT'000	2011 MNT'000
Foreign exchange gain, net	12,845,020	13,339,291
Precious metal trading gain, net	649,390	705,834
Other	808,700	131,091
	14,303,110	14,176,216

27 Operating expenses

	2012 MNT'000	2011 MNT'000
Personnel expense	16,475,250	8,939,306
Depreciation on property and equipment (note 10)	2,441,789	1,731,867
Amortisation on intangible assets (note 11)	321,884	486,832
Advertising and public relations	2,686,396	1,114,943
Rental expenses	2,390,011	1,700,901
Professional fees	1,327,080	393,122
Technical assistance and foreign bank remittance fees	988,841	720,837
Write-off of property and equipment	34,435	302
Insurance	74,795	166,598
Business travel expenses	553,585	623,795
Cash handling	805,856	499,742
Stationary and supplies	552,100	505,928
Communication	790,369	678,238
Training expenses	329,383	129,794
Utilities	351,166	239,790
Repairs and maintenance	314,438	439,098
Security	119,301	96,956
Meals and entertainment	483,433	247,317
Transportation	278,900	219,940
IT maintenance	800,034	608,708
Others (*)	756,522	527,437
	32,875,568	20,071,451

* Included in other operating expenses are costs incurred for loan collections, cleaning and other miscellaneous administrative expenses.

28 Reversal of (provision for) impairment losses

	2012 MNT'000	2011 MNT'000
Reversal of (provision for) Impairment losses for loans, net	4,305,103	(3,976,213)
Reversal of impairment losses for other assets and foreclosed real properties, net	2,249,333	905,348
	6,554,436	(3,070,865)

29 Leases

The Group leases some of its branch offices and computers under various lease agreements. Minimum lease commitments that the Group will pay under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2012 and 2011 were as follows:

	2012 MNT'000	2011 MNT'000
Within a year	1,911,179	1,504,534
1 year – 5 years	2,944,352	2,514,774
Thereafter	-	-
	4,855,531	4,019,308

30 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2012 MNT'000	2011 MNT'000
Income tax expense – current year	14,817,338	9,212,154
Income tax expense – prior year adjustment	-	70,523
	14,817,338	9,282,677

Reconciliation of effective tax expense:

	2012 MNT'000	2011 MNT'000
Profit before tax	77,944,062	51,384,508
Tax at statutory income tax rate of 25%	19,486,016	12,846,127
Tax effect of non-deductible expense	261,803	161,476
Tax effect of non-taxable income	(4,419,312)	(3,262,224)
Tax effect of progressive tax rate of 10% on the portion of taxable profits up to MNT 3 billion	(450,000)	(450,000)
Adjustment of prior year tax return	-	70,523
Other	(61,169)	(83,225)
Income tax expense	14,817,338	9,282,677

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

31 Dividends

There were no dividends declared for the years ended 31 December 2012 and 2011.

32 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months. Cash and cash equivalents reported in the consolidated statements of cash flows for the years ended 31 December 2012 and 2011 were as follows:

	2012 MNT'000	2011 MNT'000
Cash and due from banks (note 4)	444,813,254	474,964,634
Due from other financial institutions	-	(3,613,520)
Minimum regulatory reserve requirement with BOM	(250,535,821)	(168,064,650)
Cash and cash equivalents	194,277,433	303,286,464

33 Segment reporting

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

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

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

Operating segments
The Group comprises the following main operating segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers.
- *SME Banking* — Includes loans, deposits and other transactions and balances with SME customers. The Group classifies a business customer as SME where the level of financing it provides to a customer is between USD $100,000 to USD $1,000,000 rather than the classification on the size of the business itself.
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers and card customers.
- *Investment and International Banking* — Includes the Group's trading and corporate finance activities.
- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operates the Group's funds management activities.
- *Others* — Includes Headquarter operations and central shared services operation that manages the Group's premises and certain corporate costs.

33 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2012	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	112,750,763	11,908,490	(9,451,651)	(30,178,128)	713,000	(9,839,557)	75,902,917
Net fees and commission income	5,263,310	86,916	10,216,153	14,366	169,889	648,889	16,399,523
Other operating income (expenses)	212,682	272	19,628,506	106,117	(6,004,513)	360,046	14,303,110
Intersegment revenue (expenses)	(63,009,077)	(4,036,226)	40,630,900	29,144,007	(14,853,775)	12,124,171	-
Total segment revenue (expenses)	55,217,678	7,959,452	61,023,908	(913,638)	(19,975,399)	3,293,549	106,605,550
Operating expenses	(513,697)	(279,878)	(14,649,337)	(599,460)	(794,857)	(16,038,339)	(32,875,568)
Share of profit of an associate	-	-	-	-	-	(2,340,356)	(2,340,356)
(Allowance for) reversal of impairment losses	5,014,736	185,592	(648,787)	-	-	2,002,895	6,554,436
Profit (loss) before tax	59,718,717	7,865,166	45,725,784	(1,513,098)	(20,770,256)	(13,082,251)	77,944,062
Income tax expense							(14,817,338)
Net profit for the year							63,126,724
Segment assets	1,038,448,213	85,380,012	466,391,234	1,083,675	585,501,733	523,674,349	2,700,479,216
Segment liabilities	16,459,563	-	1,269,838,756	613,517,068	274,187,213	284,118,966	2,458,121,566
Unallocated liabilities						2,481,600	2,481,600
Total liabilities	16,459,563	-	1,269,838,756	613,517,068	274,187,213	286,600,566	2,460,603,166
Depreciation and amortisation	(4,666)	-	(1,341,242)	(1,325)	(10,661)	(1,405,779)	(2,763,673)
Capital expenditures	8,864	-	5,134,240	3,826	2,591	50,684,618	55,834,139

33 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2011	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	70,769,221	6,006,518	(30,529,844)	(16,400,746)	24,892,588	(6,596,317)	48,141,420
Net fees and commission income	4,192,982	128,093	7,445,015	8,029	113,753	246,361	12,134,233
Other operating income (expenses)	466,326	1,921	14,871,915	-	(1,580,696)	416,750	14,176,216
Intersegment revenue (expenses)	(41,525,827)	(2,475,150)	49,541,926	18,574,891	(29,237,322)	5,121,482	-
Total segment revenue (expenses)	33,902,702	3,661,382	41,329,012	2,182,174	(5,811,677)	(811,724)	74,451,869
Operating expenses	(527,355)	(42,646)	(8,903,392)	(294,844)	(661,189)	(9,642,025)	(20,071,451)
Share of profit of an associate	-	-	-	-	-	74,955	74,955
(Allowance for) reversal of impairment losses	(4,024,988)	296,948	531,090	-	-	126,085	(3,070,865)
Profit (loss) before tax	29,350,359	3,915,684	32,956,710	1,887,330	(6,472,866)	(10,252,709)	51,384,508
Income tax expense							(9,282,677)
Net profit for the year							42,101,831
Segment assets	775,630,552	61,634,782	330,662,265	1,083,675	455,148,767	496,570,748	2,120,730,789
Segment liabilities	52,094,869	-	1,248,114,379	210,640,758	290,164,425	178,800,328	1,979,814,759
Unallocated liabilities						1,501,186	1,501,186
Total liabilities	52,094,869	-	1,248,114,379	210,640,758	290,164,425	180,301,514	1,981,315,945
Depreciation and amortisation	(3,288)	(518)	(989,623)	(1,609)	(13,605)	(1,210,056)	(2,218,699)
Capital expenditures	2,893	64	2,359,699	664	2,893	53,931,435	56,297,648

34 Significant transactions and balances with related parties

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

- *UB City Bank and its subsidiary* — The Group's chairman is a member of the board of directors of UB City Bank.
- *Capitron Bank* — Certain key management of the Group is the shareholder of Capitron Bank.
- *MMC* — The Group holds approximately 31.6% equity interest in MMC as of 31 December 2012. (note 6)
- *TDB Media* — The Group holds approximately 49% equity interest in TDB Media as of 31 December 2012. (note 6)

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

Significant transactions and balances with related parties as of and for the years ended 31 December 2012 and 2011 were as follows:

	2012 MNT'000	2011 MNT'000
UB City Bank and its subsidiary:		
For the year ended 31 December		
Interest income	4,038,709	4,600,540
Interest expense	(539,625)	(201,616)
Fees and commission income	-	15,000
Fees and commission expenses	(62)	(19)
As at 31 December		
Deposits and placements with banks and other financial institutions	59,207,086	70,721,544
Deposits and placements by banks and other financial institutions	6,960,500	1,272,336
Loans and advances	7,934,497	1,395,895
Subordinated loans (note 9)	4,000,000	4,000,000
Bills purchased under resale agreements (note 8)	-	36,996,114
Capitron Bank:		
For the year ended 31 December		
Interest income	384,641	593,764
Interest expense	(11,605)	(3,845)
As at 31 December		
Deposits and placements by banks and other financial institutions	-	578,403
Subordinated loans (note 9)	3,000,000	3,000,000
MMC:		
For the year ended 31 December		
Interest income	330,845	480,845
Interest expense	(281,996)	(434,084)
As at 31 December		
Asset-backed securities (note 5)	1,697,000	2,653,000
Borrowings (note 17)	1,531,618	2,197,608

34 Significant transactions and balances with related parties (continued)

	2012 MNT'000	2011 MNT'000
TDB Media:		
During the year ended 31 December		
Interest income	14,385	-
As at 31 December		
Loans	4,315,510	-
Executive officers:		
During the year ended 31 December		
Interest income	376,725	209,186
As at 31 December		
Loans to executive officers	5,117,586	3,092,463

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

Total remuneration and employees benefit paid to the executive officers and directors for the years ended 31 December 2012 and 2011 amounted to MNT 4,011,647 thousand and MNT 2,458,660 thousand, respectively.

35. Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as of 31 December 2012 and 2011 are summarized as follows:

(In MNT'000)

As at 31 December 2012

	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and due from banks	-	444,813,254	-	-	444,813,254
Investment securities	361,628,276	-	95,173,334	-	456,801,610
Loan and advances	-	1,533,271,823	-	-	1,533,271,823
Subordinated loans	-	7,000,000	-	-	7,000,000
Other assets (*)	-	97,188,180	-	-	97,188,180
	361,628,276	2,082,273,257	95,173,334	-	2,539,074,867
Financial liabilities					
Deposits from customers	-	-	-	1,402,326,763	1,402,326,763
Deposits and placements by banks and other financial institutions	-	-	-	36,518,483	36,518,483
Bills sold under repurchase agreements	-	-	-	1,495,638	1,495,638
Borrowings	-	-	-	232,964,084	232,964,084
Debt securities issued	-	-	-	600,525,865	600,525,865
Subordinated debt securities issued	-	-	-	55,528,846	55,528,846
Other liabilities (**)	-	-	-	128,630,416	128,630,416
	-	-	-	2,457,990,095	2,457,990,095

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

35. Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2011

	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets					
Cash and due from banks	-	474,964,634	-	-	474,964,634
Investment securities	105,985,743	-	238,281,625	-	344,267,368
Loan and advances	-	1,123,331,907	-	-	1,123,331,907
Bills purchased under resale agreements	-	36,966,114	-	-	36,966,114
Subordinated loans	-	7,000,000	-	-	7,000,000
Other assets (*)	-	46,805,974	-	-	46,805,974
	105,985,743	1,689,068,629	238,281,625	-	2,033,335,997
Financial liabilities					
Deposits from customers	-	-	-	1,277,295,962	1,277,295,962
Deposits and placements by banks and other financial institutions	-	-	-	35,063,555	35,063,555
Bills sold under repurchase agreements	-	-	-	171,484,469	171,484,469
Borrowings	-	-	-	174,380,516	174,380,516
Debt securities issued	-	-	-	207,134,041	207,134,041
Subordinated debt securities issued	-	-	-	41,693,522	41,693,522
Other liabilities (**)	-	-	-	72,676,086	72,676,086
	-	-	-	1,979,728,151	1,979,728,151

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

35. Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2012 and 2011 are as follows:

(In MNT'000)

For the year ended 31 December 2012

	Interest income	Interest expenses	Fees and commission income	Other operating income	Reversal of (provision for) Impairment loss	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	11,376,970	-	-	-	-	11,376,970	-
Loans and receivables	193,722,727	-	7,136,229	-	6,306,973	207,165,929	-
Available-for-sale financial assets	8,235,418	-	-	373	-	8,235,791	22,071,596
Financial liabilities measured at amortised cost	-	(137,432,198)	-	106,117	-	(137,326,081)	-
	213,335,115	(137,432,198)	7,136,229	106,490	6,306,973	89,452,609	22,071,596

For the year ended 31 December 2011

	Interest income	Interest expenses	Fees and commission income	Other operating income	Reversal of (provision for) Impairment loss	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	5,177,140	-	-	-	-	5,177,140	-
Loans and receivables	114,248,278	-	5,575,020	-	(3,955,729)	115,867,569	-
Available-for-sale financial assets	24,075,063	-	-	15,904	-	24,090,967	3,736,050
Financial liabilities measured at amortised cost	-	(95,359,061)	-	-	-	(95,359,061)	-
	143,500,481	(95,359,061)	5,575,020	15,904	(3,955,729)	49,776,615	3,736,050

36 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risks
- Liquidity risks
- Market risks

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

Risk management framework

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

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

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

36 Financial risk management (continued)

(b) Credit risk

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

Management of credit risk

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

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

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

(In MNT'000)	**Loans and advances**		**Investment securities**	
	2012	**2011**	**2012**	**2011**
Carrying amount	1,533,271,823	1,123,331,907	407,811,761	305,284,048
Neither past due nor impaired	1,517,714,619	1,107,176,325	407,811,761	305,284,048
Individually impaired				
In arrears*	6,965,278	5,893,671	-	-
Non-qualitative loans:				
a) Substandard	6,043,916	602,764	-	-
b) Doubtful	8,814,505	20,209,044	-	-
c) Loss	7,225,344	7,369,912	-	-
Gross amount	1,546,763,663	1,141,251,716	-	-
Allowance	(13,491,840)	(17,919,809)	-	-
Net carrying amount	1,533,271,823	1,123,331,907	407,811,761	305,284,048

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

36 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and securities

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

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

	2012 MNT'000			2011 MNT'000		
	Gross	Net	Fair value of collateral(*1)	Gross	Net	Fair value of collateral(*1)
In arrears	6,965,278	6,617,014	6,431,448	5,893,671	5,598,987	5,137,369
Substandard	6,043,916	4,532,937	4,317,769	602,764	452,073	258,091
Doubtful	8,814,505	4,407,253	4,215,497	20,209,044	10,104,522	10,071,704
Loss	7,225,344	-	-	7,369,912	-	-
	29,049,043	15,557,204	14,964,714	34,075,391	16,155,582	15,467,164

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

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 or 2011.

During 2012 and 2011, trade activity and foreign investment inflows related to mining increased dramatically and the country's foreign exchange reserves reached record levels. However, there has been pickup in the inflation rate which could adversely affect the economic recovery and growth rate. The ultimate collectability of the loans is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Mongolian economy and the potential continuation of adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Group's consolidated financial statements.

36 Financial risk management (continued)

(b) Credit risk (continued)

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

	2012 MNT'000	2011 MNT'000
Agriculture	25,367,698	26,142,458
Mining and quarrying	275,735,372	245,635,697
Manufacturing	197,947,099	133,488,634
Petrol import and trade	97,127,220	82,917,312
Trading	263,685,676	188,765,060
Construction	176,447,292	114,972,883
Electricity and thermal energy	2,285,873	1,654,294
Hotel, restaurant and tourism	36,808,497	16,828,971
Financial services	15,875,872	4,824,841
Transportation	28,085,303	32,484,016
Health	2,924,449	1,167,209
Education	7,628,137	1,862,323
Mortgage	213,475,650	145,761,610
Payment card	91,257,688	76,100,447
Saving collateralized	14,102,788	9,696,934
Others	84,517,209	41,029,218
Total	1,533,271,823	1,123,331,907

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20% of the total equity of the Group. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the bank, and the their total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2012 are as follows:

Description	Suitable ratios	31 December 2012	Violation
The loan and guarantee given to one borrower	<Eq 20%	17.08%	None
The loan and guarantee given to the single related party	<Eq 5%	0.13%	None
Total loans and guarantees given to the related parties	<Eq 20%	1.14%	None

36 Financial risk management (continued)

(c) Liquidity risk

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia. For this purpose liquid assets are considered as including cash and cash equivalents, central bank bills, current accounts and deposits placed with BOM and other domestic and foreign banks less clearing delay. Details of the reported ratio of net liquid assets to deposits from customers/banks at the reporting date were as follows:

	2012	2011
At 31 December	37%	42%

36 Financial risk management (continued)

(c) Liquidity risk (continued)

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

(In MNT'000)

As at 31 December 2012	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	55,558,591	-	-	-	-	55,558,591
Deposits and placements with banks and other financial institutions	138,718,842	-	-	-	-	138,718,842
Balances with BOM	250,535,821	-	-	-	-	250,535,821
Investment securities	166,310,319	18,216,300	59,192,942	161,308,000	51,774,049	456,801,610
Loans and advances	249,842,596	199,104,046	432,378,366	489,130,140	162,816,675	1,533,271,823
Bills purchased under resale agreements	-	-	-	-	-	-
Subordinated loans	-	-	-	7,000,000	-	7,000,000
Other assets (*)	93,655,556	446,780	789,114	2,151,868	144,862	97,188,180
	954,621,725	217,767,126	492,360,422	659,590,008	214,735,586	2,539,074,867
Financial liabilities						
Deposits from customers	985,614,489	191,829,158	168,433,838	56,449,278	-	1,402,326,763
Deposits and placements by banks and other financial Institutions	36,518,483	-	-	-	-	36,518,483
Bills sold under repurchase agreements	1,495,638	-	-	-	-	1,495,638
Borrowings	7,762,744	33,883,787	59,472,953	102,380,463	29,464,137	232,964,084
Debt securities issued	-	-	207,725,405	392,800,460	-	600,525,865
Subordinated debt securities issued	-	-	-	55,528,846	-	55,528,846
Other liabilities (**)	99,609,332	5,785,710	10,400,624	12,555,915	278,835	128,630,416
Issued financial guarantee contracts	104,282,568	-	-	-	-	104,282,568
Unrecognised loan commitments	129,732,116	-	-	-	-	129,732,116
	1,365,015,370	231,498,655	446,032,820	619,714,962	29,742,972	2,692,004,779
Net financial assets/(liabilities)	(410,393,645)	(13,731,529)	46,327,602	39,875,046	184,992,614	(152,929,912)

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

36 Financial risk management (continued)

(c) Liquidity risk (continued)

(In MNT'000)

As at 31 December 2011	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	50,082,881	-	-	-	-	50,082,881
Deposits and placements with banks and other financial institutions	164,507,210	3,613,520	-	-	-	168,120,730
Balances with BOM	256,761,023	-	-	-	-	256,761,023
Investment securities	186,785,370	4,935,000	43,230,986	66,829,742	42,486,270	344,267,368
Loans and advances	157,193,922	142,224,407	270,585,048	423,227,062	130,101,468	1,123,331,907
Bills purchased under resale agreements	36,966,114	-	-	-	-	36,966,114
Subordinated loans	-	-	4,000,000	3,000,000	-	7,000,000
Other assets (*)	41,762,293	238,663	1,605,223	3,080,805	118,990	46,805,974
	894,058,813	151,011,590	319,421,257	496,137,609	172,706,728	2,033,335,997
Financial liabilities						
Deposits from customers	1,003,029,541	104,920,628	130,060,162	39,285,631	-	1,277,295,962
Deposits and placements by banks and other financial Institutions	12,806,845	13,222,910	9,033,800	-	-	35,063,555
Bills sold under repurchase agreements	171,484,469	-	-	-	-	171,484,469
Borrowings	9,488,089	2,536,009	33,011,844	116,573,536	12,771,038	174,380,516
Debt securities issued	-	-	-	207,134,041	-	207,134,041
Subordinated debt securities issued	-	-	-	41,693,522	-	41,693,522
Other liabilities (**)	54,536,540	1,540,471	3,066,030	13,422,653	110,392	72,676,086
Issued financial guarantee contracts	98,373,660	-	-	-	-	98,373,660
Unrecognised loan commitments	131,121,269	-	-	-	-	131,121,269
	1,480,840,413	122,220,018	175,171,836	418,109,383	12,881,430	2,209,223,080
Net financial assets/(liabilities)	(586,781,600)	28,791,572	144,249,421	78,028,226	159,825,298	(175,887,083)

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

36 Financial risk management (continued)

(d) Market risks

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

Management of market risks

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

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

Overall authority for market risk is vested with the ALCO.

Exposure to interest rate risks

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

36 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2012

(In MNT'000)

	Effective Interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand	-	55,558,591	55,558,591	-	-	-	-	-
Deposits and placements with banks and other financial institutions	6.27	138,718,842	74,458,868	64,259,974	-	-	-	-
Balances with BOM	-	250,535,821	250,535,821	-	-	-	-	-
Investment securities	11.86	456,801,610	48,989,849	166,310,319	18,216,300	59,192,942	161,308,000	2,784,200
Loans and advances	13.40	1,533,271,823	-	249,842,597	199,104,045	432,378,366	489,130,140	162,816,675
Bills purchased under resale agreements	-	-	-	-	-	-	-	-
Subordinated loan	9.71	7,000,000	-	-	-	4,000,000	3,000,000	-
Other assets (*)	-	97,188,180	97,188,180	-	-	-	-	-
		2,539,074,867	526,731,309	480,412,890	217,320,345	495,571,308	653,438,140	165,600,875
Financial liabilities								
Deposits from customers	6.16	1,402,326,763	-	985,614,489	191,829,158	168,433,838	56,449,278	-
Deposits and placements by banks and other financial institutions	5.79	36,518,483	-	13,953,428	22,565,055	-	-	-
Bills sold under repurchase agreements	15.00	1,495,638	-	1,495,638	-	-	-	-
Borrowings	2.62	232,964,084	-	7,762,745	33,883,787	59,472,953	102,380,462	29,464,137
Debt securities issued	8.60	600,525,865	-	-	-	207,725,405	392,800,460	-
Subordinated debt securities issued	11.12	55,528,846	-	-	-	-	55,528,846	-
Other liabilities (**)	-	128,630,416	128,630,416	-	-	-	-	-
		2,457,990,095	128,630,416	1,008,826,300	248,278,000	435,632,196	607,159,046	29,464,137
Net financial assets/(liabilities)		81,084,772	398,100,893	(528,413,410)	(30,957,655)	59,939,112	46,279,094	136,136,738

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

36 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2011

(In MNT'000)

	Effective Interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand	-	50,082,881	50,082,881	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2.18	168,120,730	98,027,416	66,479,794	3,613,520	-	-	-
Balances with BOM	-	256,761,023	256,761,023	-	-	-	-	-
Investment securities	10.21	344,267,368	38,983,320	190,288,320	4,935,000	43,230,986	66,829,742	-
Loans and advances	13.28	1,123,331,907	-	157,193,922	142,224,407	270,585,048	423,227,062	130,101,468
Bills purchased under resale agreements	11.00	36,966,114	-	36,966,114	-	-	-	-
Subordinated loan	9.71	7,000,000	-	-	-	4,000,000	3,000,000	-
Other assets (*)	-	46,805,974	46,805,974	-	-	-	-	-
		2,033,335,997	490,660,614	450,928,150	150,772,927	317,816,034	493,056,804	130,101,468
Financial liabilities								
Deposits from customers	5.99	1,277,295,962	-	1,003,029,541	104,920,628	130,060,162	39,285,631	-
Deposits and placements by banks and other financial institutions	4.00	35,063,555	12,806,845	-	13,222,910	9,033,800	-	-
Bills sold under repurchase agreements	16.25	171,484,469	-	171,484,469	-	-	-	-
Borrowings	4.14	174,380,516	-	9,488,089	2,536,009	33,011,844	116,573,536	12,771,038
Debt securities issued	9.84	207,134,041	-	-	-	-	207,134,041	-
Subordinated debt securities issued	13.58	41,693,522	-	-	-	-	41,693,522	-
Other liabilities (**)	-	72,676,086	72,676,086	-	-	-	-	-
		1,979,728,151	85,482,931	1,184,002,099	120,679,547	172,105,806	404,686,730	12,771,038
Net financial assets/(liabilities)		53,607,846	405,177,683	(733,073,949)	30,093,380	145,710,228	88,370,074	117,330,430

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

36 Financial risk management (continued)

(d) Market risks (continued)

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

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
Sensitivity of projected net interest income		
2012		
At 31 December	(4,667,255)	4,667,255
2011		
At 31 December	(5,862,038)	5,862,038

36 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks

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

(In MNT'000)

	2012			2011		
	MNT denominated	**Foreign currencies**	**Total**	**MNT denominated**	**Foreign currencies**	**Total**
Financial assets						
Cash on hand	24,039,923	31,518,668	55,558,591	21,715,130	28,367,751	50,082,881
Deposits and placements with banks and other financial instruments	51,496,634	87,222,208	138,718,842	31,294,094	136,826,636	168,120,730
Balances and deposits with the BOM	108,686,678	141,849,143	250,535,821	103,966,754	152,794,269	256,761,023
Investment securities	440,141,403	16,660,207	456,801,610	344,267,368	-	344,267,368
Loan and advances	673,033,148	860,238,675	1,533,271,823	502,295,898	621,036,009	1,123,331,907
Bills purchased under resale agreements	-	-	-	36,966,114	-	36,966,114
Subordinated loans	7,000,000	-	7,000,000	7,000,000	-	7,000,000
Other assets (*)	16,163,776	81,024,404	97,188,180	9,569,447	37,236,527	46,805,974
	1,320,561,562	1,218,513,305	2,539,074,867	1,057,074,805	976,261,192	2,033,335,997
Financial liabilities						
Deposits from customers	678,059,489	724,267,274	1,402,326,763	755,270,967	522,024,995	1,277,295,962
Deposits and placement by bank and other financial institutions	210,586	36,307,897	36,518,483	242,032	34,821,523	35,063,555
Bills sold under repurchase agreements	1,495,638	-	1,495,638	171,484,469	-	171,484,469
Borrowings	144,236,327	88,727,757	232,964,084	85,539,860	88,840,656	174,380,516
Debt securities issued	-	600,525,865	600,525,865	-	207,134,041	207,134,041
Subordinated debt	-	55,528,846	55,528,846	-	41,693,522	41,693,522
Other liabilities (**)	93,758,273	34,872,143	128,630,416	53,387,668	19,288,418	72,676,086
	917,760,313	1,540,229,782	2,457,990,095	1,065,924,996	913,803,155	1,979,728,151
Off-balance foreign currency exposure, net		201,888,906			(69,817,503)	
Net foreign currency exposure		(119,827,571)			(7,359,466)	

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

36 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks (continued)

A ten percent strengthening of the MNT against the USD at 31 December 2012 and 2011 would have increased (decreased) profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Ten percent strengthening MNT'000
2012	
At 31 December	(11,982,757)
2011	
At 31 December	735,947

At ten percent weakening of the MNT against the USD at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

36 Financial risk management (continued)

(e) Capital Management

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

The Bank of Mongolia requires the Group to maintain a minimum capital adequacy ratio of 13.0% and 12.0% at 31 December 2012 and 2011, respectively, complied on the basis of total capital and total assets as adjusted for their risk ("CAR") and a minimum of 8.0% and 6.0% at 31 December 2012 and 2011, respectively, complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

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

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

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

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

The suitable ratios of the Group's capital adequacy as at 31 December 2012 and 2011, respectively, were as following:

	2012 MNT'000	2011 MNT'000
Tier 1 capital	189,450,452	116,976,728
Tier 2 capital	97,870,769	64,131,638
Total Tier 1 and Tier 2 capital	287,321,221	181,108,366
Risk weighted assets	1,899,910,898	1,429,184,273
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	15.12%	12.67%
Total tier I capital expressed as a percentage of risk-weighted assets ("TCAR")	9.97%	8.18%

37 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

Amendments to IFRS 7 *Financial Instruments: Disclosures* require enhanced fair value and liquidity disclosures. In accordance with amendments to IFRS 7, the Group follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in measurement.

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

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

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

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

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

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

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

(ii) Fixed rate financial instruments

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

37 Fair values of financial assets and liabilities (continued)

(In MNT'000)	Note	Carrying amount 2012 MNT 000	Fair value 2012 MNT 000	Carrying amount 2011 MNT 000	Fair value 2011 MNT 000
Financial assets					
Cash on hand	4	55,558,591	55,558,591	50,082,881	50,082,881
Deposits and placements with banks and other financial institutions	4	389,254,663	389,254,663	424,881,753	424,881,753
Investment securities	*5*	456,801,610	456,142,323	344,267,368	344,187,031
Loans and advances to customers	7	1,533,271,823	1,548,037,011	1,123,331,907	1,178,452,870
Bills purchased under resale agreements	8	-	-	36,966,114	36,966,114
Subordinated loans	9	7,000,000	7,000,000	7,000,000	7,000,000
Other assets (*)	13	97,188,180	97,188,180	46,805,974	46,805,974
		2,539,074,867	2,553,180,768	2,033,335,997	2,088,376,623
Financial liabilities					
Deposits from customers	14	1,402,326,763	1,401,431,673	1,277,295,962	1,220,954,963
Deposits and placements by banks and other financial institutions	15	36,518,483	36,518,483	35,063,555	35,063,555
Bills sold under repurchase agreements	16	1,495,638	1,495,638	171,484,469	171,484,469
Borrowings	17	232,964,084	233,125,688	174,380,516	174,580,353
Debt securities issued	18	600,525,865	600,922,520	207,134,041	200,563,416
Subordinated debt securities issued	19	55,528,846	55,340,397	41,693,522	49,190,702
Other liabilities (**)	20	128,630,416	128,630,416	72,676,086	72,676,086
		2,457,990,095	2,457,464,815	1,979,728,151	1,924,513,544

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

38 Commitment and contingent liabilities

Financial guarantees and letters of credit

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

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

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

As at 31 December	2012 MNT'000	2011 MNT'000
Letters of credit and guarantees	104,282,568	98,373,660
Loan and credit card commitments	129,732,116	131,121,269

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

Bank Deposit Guarantee commission

Mongolian Government issued the Guarantee for Bank's Deposits law in November 2008 in order to provide the financial markets solvency and guarantee the banks' deposits by the government. In July 2010, the law was amended to state that the Commercial banks, defined by Mongolian law, will charge a commission of 0.5% of a customer's deposit balance that is guaranteed by the law. According to the Parliament of Mongolia's Resolution #6 announced on 10 January 2013, the Bank should pay its commission by 1 August 2013 to the Deposit Insurance Corporation that will be incorporated based on the resolution.

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


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