TDB
TRADE & DEVELOPMENT BANK

ANNUAL REPORT 2013

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Message from the President

Dear customers, partners, ladies and gentlemen,

Randolph Koppa

President

I am honored to present you the Bank's main accomplishments and financial results achieved in 2013, a period of rapid growth in Mongolian economy, whilst the world economic growth and especially the Chinese economic growth rate is declining over the past years. As presented in this report, the bank had record earnings and regained its position as the largest bank in Mongolia in terms of assets.

Trade and Development Bank of Mongolia, the leading bank in the Mongolian banking sector, cooperated with Netherlands Development bank (FMO) and ING Bank to obtain a USD 82 million syndicated A/B term loan facility agreement in September 2013, to provide funding for the bank's lending activities, in particular to encourage more lending to SMEs. . The signing ceremony was historical event for the Mongolian banking sector as this was the largest syndicated loan facility ever arranged.

In July TDB participated in "Euromoney awards for exellence 2013" event in Hong Kong which recognized TDB as the "Best bank of Mongolia". Also, Global Banking and Finance Review Awards recognized TDB as the "Best Commercial Bank Mongolia" and Global Trade Review named TDB as the "Best Trade Finance Bank in Mongolia for the third consecutive year.

We continued to expand our cooperative relations with large and reputable international organizations and institutions. A noteworthy highlight in 2013 is TDB Capital LLC cooperation with Japanese corporation MG Leasing resulting in the launch of TDB Leasing LLC, an international standard financial leasing company which is the such joint venture in the Mongolian market.

Trade and Development Bank of Mongolia successfully issued the country's first ever offshore CNY 700 million bond, listed on the Singapore Stock Exchange on 14 January 2014. This was the fifth time that TDB has tapped the international bond markets, after three successful senior unsecured deals in 2007, 2010 and 2012, respectively and a subordinated note issuance in 2010. In fact, TDB is the first ever Mongolian bank to issue bonds both in USD and CNY, and the only Mongolian repeat bond issuer.

I would like to express my sincere gratitude to all our esteemed customers, deposit holders, international and domestic partners for their continuous support and cooperation during the historic period of our success. We believe that 2014 will be another remarkable year full of success and achievements not only for TDB, but also for Mongolia.

Trade and Development Bank, the oldest commercial bank in Mongolia will be your trusted financial partner with its 24 years of rich experience. We wish all our partners and customers rising profits and a prosperous life!

Randolph Koppa

President

Message from the CEO

Dear customers, business partners, stakeholders and associates,

Balbar Medree

Chief Executive Officer

"The fiscal year of 2013 was a remarkable year for Trade and Development Bank of Mongolia (TDB). In the reporting year, the Bank has extended its leadership in the Mongolian banking sector by total assets and total loan portfolio and has been recognized as a bank with the highest net profit, which is a result of hard work and contribution of each employee of the Bank and effective cooperation of our customers and associates."

TDB underlined the year 2013 as "Efficiency Increasing Year" and worked with dedication on three main developments consisting of increasing efficiency of banking products and services by integrating, innovating and using internal resources with full capacity, improving interrelations of branches, settlement centers and other departments and implementing automation in order to reduce manual workload. TDB has been focusing on increasing its return on equity, efficiency per employee and per unit not only in the passing year, but has been keeping sustainable development and financial growth each year by monitoring, measuring, and maintaining successful and prompt management which are reflected in the financial performances.

Since 2005, the Bank has extended its mortgage loan service continuously even during the period of economic crisis. In that regard, TDB has taken the lead to support "Housing Mortgage Loan Program at 8 Percent of Annual Interest Rate" which is a sub-program of "Mongolian Construction Sector Development and Apartment Price Stabilization Program" which is implemented by the Government of Mongolia and the Bank of Mongolia from 2013 and organized an opening ceremony to provide housing mortgage program to the customers. Moreover, the Bank successfully transferred eligible mortgage loans of existing customers to loans with 8% p.a. interest rate without any added commissions.

In 2013, TDB introduced a product called "TDB Online" to the market, a leading edge internet banking system which was innovated according to our customer requirements. TDB Online service is proven to be essential with its rapid growing number of clients and spreading network in Mongolia. Furthermore, it is worth to mention that we have continuously performed improvements in our MostMoney service and made it more accessible to our users by partnering with all mobile phone operators.

One of the challenges of small and medium entrepreneurs (SMEs) is the lack of collateral. SMEs face challenges of lacking collateral when they request loan from banks to develop their business and increase their assets. As a result of standard for risk assessment and collateral evaluation of commercial banks, entrepreneurs do not receive the requested loan amount, or the collateral does not meet with eligibility criteria. In order to solve these issues, TDB has started cooperating with Mongolian Credit Guarantee Fund (MCGF). Efficient cooperation between MCGF and Commercial banks will have tremendous support for the SMEs profitability growth and further influence their business to expand to become a corporation.

As a bank that realizes its social responsibility, TDB has supported social classes which need our help and participated in many social events as a sponsor for brighter future of Mongolia.

In particular, the Bank started a project of building 200 international standard bus stations with investment of MNT 15 billion to contribute to Ulaanbaatar city's prosperity and development.

We would like to express our gratitude and appreciation to all of our customers, local and international corporate clients as well as our business partners for continued cooperation, trust and dedication over the past 24 years.

In 2014, TDB is aiming to broaden its network and increase the number of and further improve its products and services qualities to meet the increasing demand of our customers.

Herewith, I am wishing you a happy and healthy life filled with positivity and honesty towards success. I would like to express my gratitude to TDB's management team, Directors and Employees for their hard work.

B.Medree

Chief Executive Officer

Financial highlights

MNT billion

Assets	2013	2012	2011
Cash and cash equivalents	1,090.2	444.8	475.0
Investment securities	885.1	456.8	344.3
Investment in associates and joint ventures	10.4	2.4	2.3
Loans and advances	2,530.6	1,533.3	1,123.3
Reverse repurchase agreements	0.0	0.0	37.0
Subordinated loans	7.0	7.0	7.0
Property and equipment	153.3	131.6	79.1
Intangible assets	4.3	0.6	0.4
Investment property	33.4		
Foreclosed properties	6.1	0.2	0.6
Other assets	403.7	123.9	51.8
Total assets	**5,124.1**	**2,700.5**	**2,120.7**
Liabilities			
Deposits from customers	2,139.7	1,402.3	1,277.3
Deposits and placements of banks and other financial institutions	172.1	36.5	35.1
Bills sold under repurchase agreements	372.7	1.5	171.5
Borrowings	1,157.1	233.0	174.4
Current tax payables	7.6	2.5	1.5
Debt securities issued	460.6	600.5	207.1
Other liabilities	379.2	128.8	72.8
Subordinated borrowings	66.0	55.5	41.7
Total liabilities	**4,755.0**	**2,460.6**	**1,981.3**
Share capital	33.2	33.2	8.0
Revaluation reserves	32.7	44.4	22.4
Retained earnings	301.6	162.3	109.0
Total shareholder's equity	367.5	239.9	139.4
Non-controlling interests	1.6		
Total liabilities and shareholders' equity	**5,124.1**	**2,700.5**	**2,120.7**

Income Statement

MNT billion

	2013	2012	2011
Interest income	321.4	213.3	143.5
Interest expense	(200.7)	(137.4)	(95.4)
Net interest income	**120.7**	**75.9**	**48.1**
Net fee and commission income	21.5	16.4	12.1
Other operating income (expense)	68.7	14.3	14.2
Net non-interest income	**90.2**	**30.7**	**26.3**
Operating income	**211.0**	**106.6**	**74.5**
Operating expenses	(44.5)	(32.9)	(20.1)
Share of profit (loss) of an associate	0.2	(2.3)	0.1
Allowance for impairment losses	(8.3)	6.6	(3.1)
Profit before tax	**158.4**	**77.9**	**51.4**
Corporate income tax	(19.2)	(14.8)	(9.3)
Net profit for the year	**139.3**	**63.1**	**42.1**

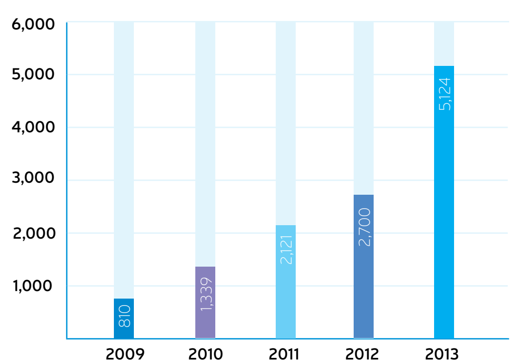
Ratios	2013	2012	2011
Profitability:			
Cost Income Ratio	21.1%	30.8%	27.0%
Net Interest Margin	4.4%	4.4%	3.5%
ROE	37.9%	26.3%	30.2%
ROA	2.7%	2.3%	2.0%
Growth rate			
Asset growth	89.7%	27.3%	58.4%
Loan growth	65.0%	36.5%	141.9%
Deposit growth	52.6%	9.8%	38.8%
Capital growth	53.2%	72.1%	57.9%
Asset quality:			
Loans to deposit ratio	118.3%	109.3%	87.9%
Loans to asset ratio	49.4%	56.8%	53.0%
Liquidity Ratio	42.0%	37.0%	42.0%
Capital:			
Tier 1 Capital Adequacy Ratio	11.6%	10.0%	8.2%
Capital Adequacy Ratio	15.1%	15.1%	12.7%

As at 31 December 2013, the total outstanding loans reached MNT 2,530.6 billion, an increase of MNT 997.3 billion or 65.0 percent, compared to the end of 2012. The total liabilities and capital of the bank reached MNT 5,124.1 billion, an increase of 89.7 percent or MNT 2,423.6 billion compared to the end of the last year.

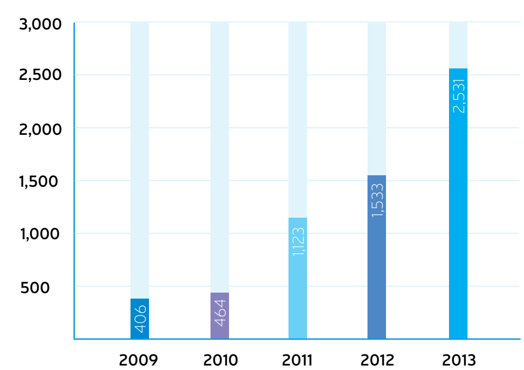
Moreover, total liabilities and capital of the Bank consisted of as follows: deposits from customers 41.8 percent, deposits from banks 3.4 percent, bills sold under repurchase agreements 7.3 percent, loans from banks 22.6 percent, bond 9.0 percent, other liabilities 8.7 percent and capital funds 7.2 percent.

As at 31 December 2013, the net profit reached MNT 139.3 billion, an increase of MNT 76.2 billion or 120.8 percent, compared to the end of 2012. In relation to strong loan growth, interest income of 2013 increased by MNT 108.1 billion or 50.7 percent, compared to the end of 2012. Moreover, net non-interest income reached MNT 90.2 billion, an increase of MNT 59.5 billion or 193.8 percent, compared to the same period last year.

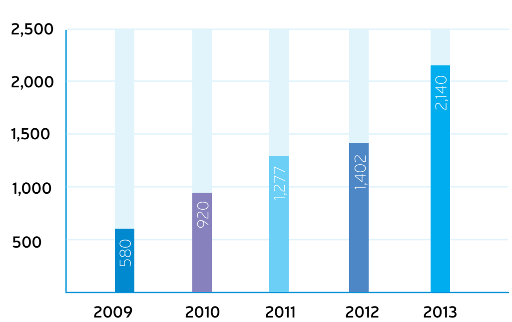
Total assets GAGR - 59%



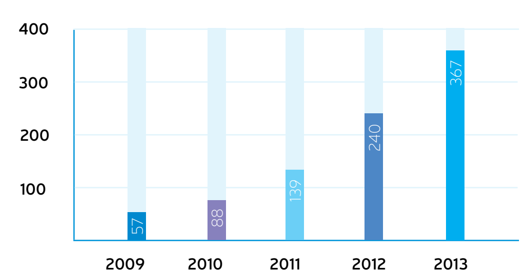
Loans and advances GAGR - 58%



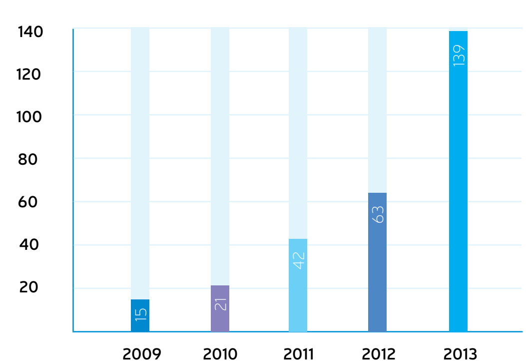
Deposits from customers GAGR - 39%



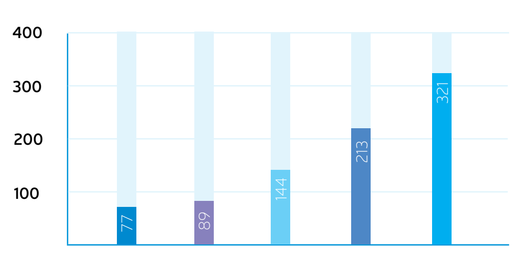
Total shareholder's equity GAGR - 53%



Operating income GAGR - 75%



Interest income GAGR - 43%



Trade and Development Bank in 2013

KEY EVENTS

2013 has been a year of major work and success for Trade and Development Bank as the Bank has contributed significantly to the Mongolian banking, financial and economic sectors, supported urban development with financings, and overperformed its goals and action plans to deliver proximate financial services to its clients.

> TDB signed the "A/B Syndicated Term Facility Agreement" of USD 82 million with the Netherlands Development Finance Company (FMO) and ING in September, 2013 and increased its funding source to finance local enterprises, organizations and business entities in need financing and to contribute significantly to the economic development of Mongolia. The signing ceremony marked a historical event in the Mongolian banking sector as the first biggest international syndicated facility.

> TDB together with the Netherlands Development Finance Company (FMO), IFC, a member of the World Bank Group, Mongolia Bankers Association (MBA) and the Banking and Finance Academy (BFA) organized the first "Mongolian Sustainable Finance Forum" to promote green growth in Mongolia as the country develops.

> As TDB alone handles over 50% of Mongolia's total trade finance related transactions, the Bank cooperated with Mongolian National Chamber of Commerce and Industry (MNCCI) to organize "Trade Finance Seminar", which had noteworthy impact on the future business activities and development of the Bank's clients.

> TDB started its cooperation with Credit Guarantee Fund of Mongolia (MCGF) in order to solve the lack of collateral problem of small and medium entrepreneurs (SMEs). Effective cooperation between TDB and MCGF will result in significant support for SMEs to develop and expand their businesses. Moreover, MCGF will be responsible for the guarantee of up to 60% or maximum of MNT 250 million of the current asset, investment and microcredit loan amount requested by the SMEs.

> In June 2013, TDB Leasing LLC was established by TDB, TDB Capital LLC and MG Leasing Corporation, the subsidiary company of well-known Sumitomo Mitsui Financial Group, Inc. of Japan. The newly established TDB Leasing LLC provides comprehensive financial leasing solution to its customers and contributes greatly to the growing demand of financial leasing service in Mongolia.

> In October 2013, TDB successfully established a "Cooperation Agreement" with "Microsoft" Corporation in collaboration with "Soft Line" IT company. Under the agreement, Microsoft will assist TDB in bringing the quality of its software and security to the international level. Moreover, TDB will receive access to up-to-date and authorized software solutions in addition to regular consultative services by Microsoft Corporation.

SOCIAL RESPONSIBILITY

> The Bank contributes its share to future development of our capital city.

In order to contribute to our capital city's development, the Bank started the project wth its own funding of MNT 15 billion to build 200 international standard bus shelters with free Wi-Fi zone, 24 hour CCCTV, LED screen, comfortable seats, trash bin and etc., with the support of JCDecaux.

> The Bank support childrens from all areas of the society as they are the future of Mongolia.

In June 2013, TDB cooperated with Max Group and presented childrens' savings account for 20 orphan childrens to extend hope and joy for their future. The Bank presented book collection and savings account to every children as well as movie tickets to Urguu cinema for 150 children and game ticket for 50 children to play at the National Park Center, spreading more joy on childrens' holiday.

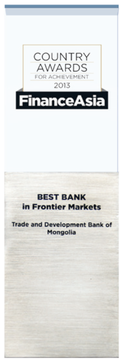
> The Bank spread happiness to impaired children for the 9th year as a tradition

TDB participated in New Year holiday celebration of 29th secondary school of children with special needs and presented special gifts to children. The event has become a tradition and has been organized for the past 9 years as the Banks representatives present a christmas tree and gifts to more than 360 children.

> The Bank has sponsored "Sensation -2020" for 7 consecutive years and won the Gold Cup in 2013

The Bank has been sponsoring the "Sensation 2020", indoor football game, which has been organized in the past 7 years under the auspices of the President of Mongolia. In 2013, the Bank team has won the Gold Cup championship title of the football competition.

AWARDS AND ACCOMPLISHMENTS



> **"Best Bank in Frontier Markets"**

The Finance Asia, an Asian leading magazine, which publishes Asian news and analysis across the world selected the best banks of the banking and finance sector and TDB won the "Best Bank in Frontier Markets" award.

> **"Best Bank in Mongolia 2013"**

In July 2013, an international event "Euromoney Awards for Excellence 2013" was organized in Hong Kong to recognize the best banks from around the world. TDB was awarded the "Best Bank in Mongolia" at the awards ceremony.

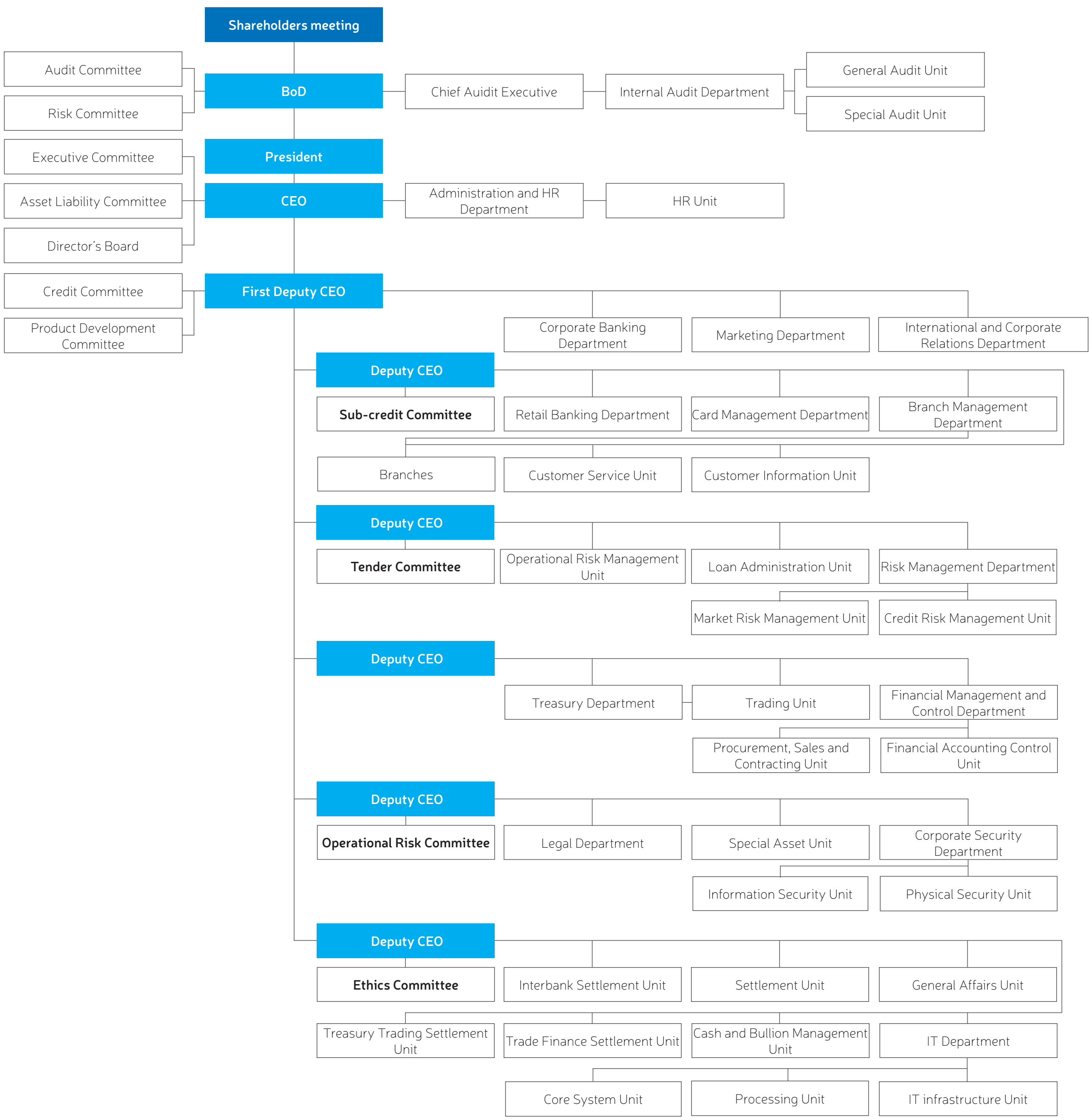
> **"Best Trade Finance Bank in Mongolia"**

The internationally recognized bank, TDB, was awarded as the "Best Trade Finance Bank in Mongolia" for three consecutive years. The prestigious award was presented by Global Trade Review (GTR), the world's leading trade finance international magazine, which recognizes the best in the field annually through majority of votings from other international banks and financial institutions.

> **"Best Commercial Bank Mongolia"**

The Global Banking and Finance Review Awards recognized TDB as the 2013 Award Winner of the "Best Commercial Bank Mongolia". TDB successfully received the award certificate and prestigious cup which came with the award. The Global Banking and Finance Review Awards are known through the global banking and financial community.

Organizational Structure



Corporate Governance

Excellence in corporate governance is a fundamental aspect of corporate sustainability and TDB supports a comprehensive governance framework.

Our governance structure determines the fundamental relations among the members of Board of directors, management, shareholders and other stakeholders. It defines the framework in which ethical values are established and context in which corporate strategies and objectives are set.

Board of Directors

Our Board operates and requires at all levels, impeccable values, honesty and openness. Through its processes it achieves transparent, open governance and communications under all circumstance addressed.

Management team

Our governance policies and practices support the ability of directors to supervise management and enhance long term shareholder value.

Employees

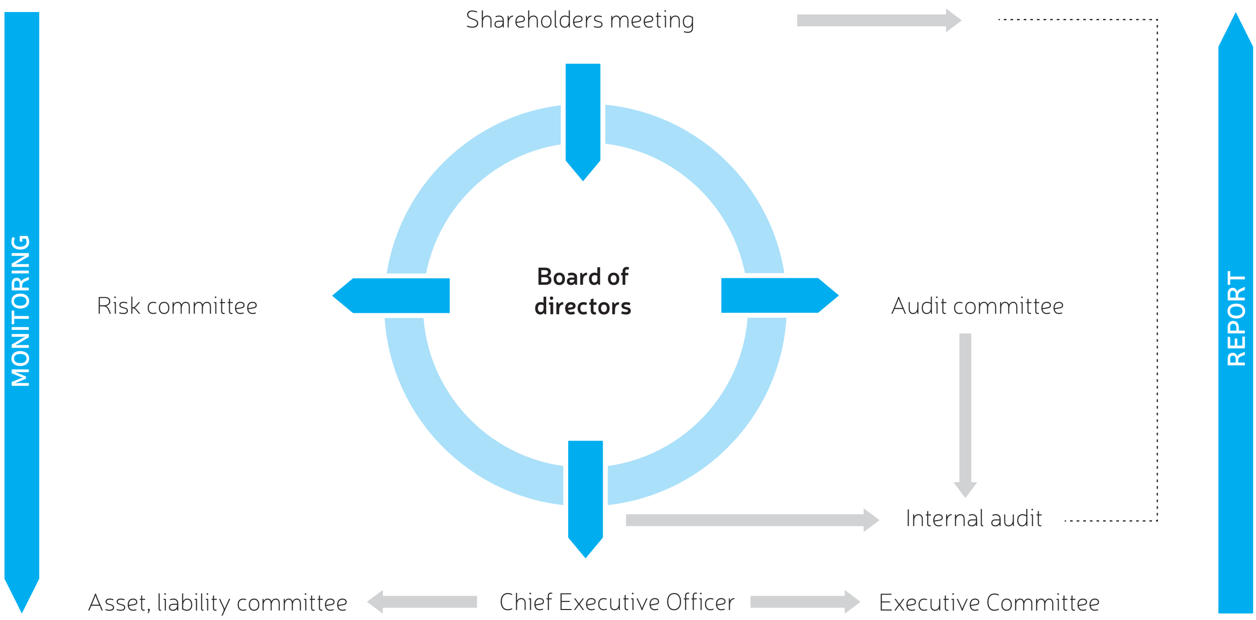
The bank is committed to providing faithful, safe, challenging and rewarding work, recognizing the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.

All stakeholders

The bank strongly committed to maintaining an ethical workspace, complying with legal and ethical responsibilities.

As we work to serve our customers, clients, and communities and generate returns for our shareholders, we understand that success is only meaningful when it is achieved with right way.

CORPORATE 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. ORKHON.O
First Deputy CEO

Mrs. GANTUUL.P
Chief Auditor

Mr. KHURELBAATAR.D
Deputy CEO

Mrs. OTGONBILEG.D
Deputy CEO

Mr. ORGODOL.S
Deputy CEO

Mr. SORONZONBOLD.L
Deputy CEO

CORPORATE BUSINESS ACTIVITIES

3

In 2013, the corporate loan portfolio has reached MNT 2 trillion for the first time in its history. TDB is the largest corporate lender in Mongolia with 32.5% corporate lending market share.

Corporate business activities

The loan portfolio has reached MNT 2 trillion

TDB, the leading corporate bank, has increased its loan portfolio allocated to larger companies, development companies and corporations to MNT 2 trillion for the first time in its history.

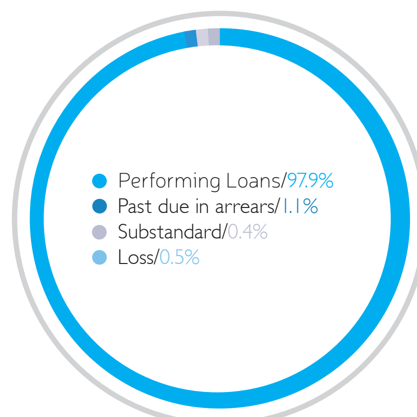
In addition to providing credit facilities to larger companies and corporations, the Bank has been supporting and cooperating with its client companies operating in construction sector by offering and providing mortgage loan and mortgage loan with 8% interest rate to clients buying apartments through all of its branches and settlement centers under the "Tri-Party Agreement".

Moreover, the Bank has started providing loans upon considering whether the business of the credit requested client is environmentally friendly, ensures labor safety, socially beneficial and fruitful in the future and thus, taking significant step towards implementing and promoting the culture and concept of social responsbility and sustainable development in Mongolia. In that regard, TDB, the Netherlands Development Finance Company (FMO), IFC, a member of the World Bank Group, Mongolian Banking Association (MBA) and Banking and Finance Academy (BFA) have joined forces and together organized an event "Mongolia Sustainable Finance Forum" in 2013 and as a result, all banks of Mongolia joined in the sustainable finance inititative and signed a credential, promising to be more considerate of possible consequences and therefore, the Bank started a new era promoting that society and businesses shall consider not to cause possible harms to the citizen of future while earning the profits of today.

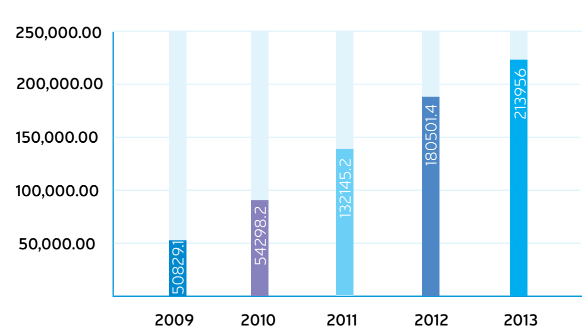
Furthermore, the Bank has been supporting and implementing the "Price Stabilization Programs for the Main Economic Sectors" of the Government of Mongolia and Bank of Mongolia by providing loans to national companies within the framework of the program.

Even though the prices of main mining products in the international market decreased and world economic indicators slowed, resulting in decreased volume of the country's export and further slowdown of GDP, the Bank had a successful year in which the corporate loan portfolio increased by 80.87%, and the percentage of non-performing loans within the loan portfolio decreased by 34.8% as at the end of 2013.

Loan classifications



Total amount of issued L/C and L/G



The Bank alone handled 50% of all trade finance services in Mongolia.

In 2013, TDB alone executed 50% of total foreign remittance and 50% of trade finance related transactions in Mongolia. As a leader bank in trade finance business, TDB has been organizing seminars and trainings to educate clients on how to effectively utilize trade finance instruments in their business and to obtain low cost funding through related trade finance credits on a regular basis. In that regard, the Bank has cooperated with "Mongolian National Chamber of Commerce and Industry" and organized "Trade Finance Seminar" with the purpose to provide complex information on the trade finance topic to more than 400 clients in May and November of 2013.

Project financing programs have been successfully implemented

TDB has been offering possibilities to small and medium sized enterprises (SMEs), companies and clients to broaden their operational scopes and extend their business framework by offering business loans, project loans, trade finance instruments, on-lending projects implemented by the Government and sub-programs with favorable conditions in order to meet the demands and needs of its customers.

"Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection" by Japan International Cooperation Agency (JICA). The Bank was selected as one of the Participating Financial Institutions (PFI) in both, Phase I (2006-2011) and Phase II (2011-current) for the on-lending program since the beginning of the implementation in 2006. The Bank has disbursed funding to 26 SME project implementers within the framework of Phase I and 42 SME clients within the framework of Phase II. Phase III of the on-lending project loan is expected to commence in 2015.

Private Sector Development Credit I and II by the World Bank. TDB has been one of the successful Participating Financial Institutions (PFIs) for the project funded by World Bank with the purpose of supporting SMEs by participating in both phases of the project since 2004 and by disbursing project loans to 20 SMEs with successful implementation.

Agriculture and Rural Development Project by Asian Development Bank (ADB). TDB signed "Financing Agreement" with ADB in 2011 to finance value chain development (VCD) subprojects, exclusively for the purpose of financing the cost of goods, works, and consulting services required to carry out VCD subprojects by developing agriculture sector and rural areas. TDB had disbursed funding to successful manufacturers and processors of raw materials from the rural areas.

Credit Program for Small and Medium Sized Enterprises by KfW bank of Germany. The project loan is being implemented by TDB since 1996 with purpose of financing the projects of manufacturers and producers replacing importing goods, enhancing exporting, purchasing of equipments and technical renovations.

Credit Program of SME Development Fund by the Ministry of Labor. The Bank has been successfully implementing the credit program since being selected as the project implementer in 2009. The financing is disbursed to 12, 18 and 29 sub-projects in 2009, 2010 and 2013, respectively.

4 RETAIL BANKING ACTIVITIES

"During the year of 2013, TDB focused on creating and expanding retail product offerings and high quality services with more flexible conditions to meet the increasing demands of retail customers. At end of December 2013, the Bank's deposit from customer reached MNT 2140 billion approximately representing 22.5% of banking sectors deposit market share.

Retail banking activities

TDB works towards improving qualities and benefits of retail banking financial products and services and introducing new products and services to meet clients' needs and hereby the Bank presents its successes achieved in the retail market during the reporting year.

The Bank welcomed and honored the "Junior customers"

TDB works as a sponsor of variety of activities dedicated for children and the Bank has participated as a general sponsor in the lecture named "The shortest way to reach the children's heart", which was organized at the Government palace. The Bank invited its clients to the lecture who has been building long term savings using the Bank's recurring payment service for the future of their children.

Moreover, on the Children's Day, the Bank organized children's savings expedition with gift promotion, honored children's savings account holders who reached age of 18 as "Junior customer", and presented them respectful memorial certificates with free CUP cards and the Bank's signature gifts. The Bank has decided to organize the above event in every year.

The customers can open accounts and obtain loan from anywhere in the world by using the newly launched "TDB Online" banking service

The Bank introduced "TDB Online" banking service to the market, an updated version of the previous Internet banking service, by enhancing it with new and advanced options to improve its customer satisfaction level and to allow customers to open savings account and to obtain savings collateralized loan and salary loan without having to physically visit branches and settlement centers of the Bank.

Supported and introduced the "Housing Mortgage Loan Program at 8% of Annual Interest Rate"

The Bank successfully introduced the "Housing Mortgage Loan Program at 8 Percent of Annual Interest Rate" which was jointly implemented by the Government of Mongolia and the Bank of Mongolia and ensured the need of clients to obtain mortgage loan while automatically transferring the existing mortgage loans of qualified clients to the above loan with low interest rate without any added commission and in this regard, the Bank received customer appreciation.

Money transfer

As TDB is the only super agent bank of MoneyGram, global money transfer service company, in July 2013, the Bank successfully organized the first conference of commercial agent banks that provide MoneyGram services in Mongolia and the conference will be organized periodically.

International transfer service

TDB has been providing transfer service to its clients at professional level since the beginning of 2-tier banking system or since 1990 for 24 years.

During this period, the Bank has been expanding its international transfer service and has been executing the clients' international transfers to over 100 countries through its 43 nostro accounts held at top ranked 39 international banks and 16 loro accounts held at 8 international banks and financial institutions.

In 1996, the Bank became the first member from Mongolia to join the SWIFT Network which enables banks and financial institutions as well as multi-national corporations to exchange their financial and other information worldwide in a swift and secure manner. Since then, the Bank has been directly exchanging all types of information regarding the international settlement of clients with over 150 banks and financial institutions of over 100 countries.

In 2013, the Bank implemented major works to improve its international transfer execution system and expanded the possibilities of customers' international transfer service through internet banking by introducing "TDB Online" program. Furthermore, the Bank has enabled an possibility to execute international transfer through MostMoney service in order to deliver e-banking services closer to the customers.

Introduced term deposit service for visa applicants

For visa application, Embassy of South Korea requires that a certain amount of money is to be placed in bank accounts and therefore, TDB introduced a term deposit service for visa application purpose together with Embassy of South Korea and signed a Memorandum of Understanding. As a result, the Bank's VIP customers and savings account holders gain advantages of placing deposit and receiving the Bank's letter of reference required for visa application in a short period of time.

The Bank's branch and settlement center developments

The Bank opened 2 new settlements centers and 3 branch and settlement center extensions in 2013 for the purpose of expanding the Bank's operation and improving accessibility of its banking service to the customers.

Furthermore, in 2013, the Bank increased the number of branches and settlement centers that work under extended working hour by 69% in order to provide convenient banking service to its customers and to enhance customer satisfaction.

The Bank aims to open 7 new branches and settlement centers in 2014 to promptly deliver its banking products and services closer to the customers and to further increase its sales.

INTERNATIONAL RELATIONS AND INTERNATIONAL BANKING ACTIVITIES

5

"The Bank, as an international "face" of Mongolia, partnered with over 150 international Banks and Financial institutions all around the World. TDB alone handled 52% of Mongolia's total trade finance related transactions" in 2013.

International relations and international banking activities

In 2013, TDB has extensively expanded the scope of its cooperation with international banks and financial institutions, raised low cost funding from international capital market, increased the possibilities of financing import trading from abroad and created extensive appropriate solutions of international settlement.

TDB Leasing LLC was established by TDB Capital LLC and MG Leasing Corporation, the subsidiary company of well-known Sumitomo Mitsui Financial Group, Inc. of Japan. The company provides comprehensive financial leasing solution to its customers, supports purchase of mining and construction equipments and contributes greatly to the growing demand of financial leasing service in Mongolia.

The Bank has introduced a new structure in Corporate relations and implemented "One window service" in order to improve the service quality and standards provided to the Bank's strategically important customers and to bring the level of corporate relations to a higher level of development.

TDB announced its first syndication on the international syndicated market. The A/B Syndicated Term Facility Agreement of USD 82 million was successfully signed with FMO, the Netherlands Development Finance Company, with participation of well respected international banks and financial institutions namely International Investment Bank, ING Bank N.V., AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group for the purpose of financing general funding requirement of TDB including on-lending to its customers.

In the reporting period, the Bank's borrowings from international banks and financial institutions increased by 155 percent, as compared to the end of last year, demonstrating the market confidence in TDB's strategy, financial strength and management, and affirming TDB's standing in the international markets.

The provision of on-lending project loan has increased

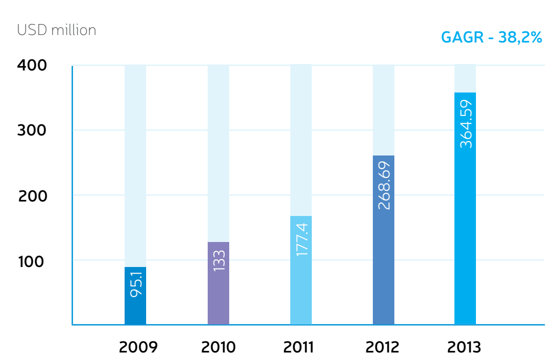
In 2013, the Bank continued its successful implementation of the mid-and-long-term loan programs to support the small and medium enterprises (SMEs) such as the "SME and Financial Sector Development project" financed by KfW bank of Germany, "Two-Step-Loan Project for Small and Medium Scaled Enterprises and Environmental Protection Phase II" financed by Japan International Corporation Agency (JICA), Agriculture and Rural Development Project (ARDP) financed by Asian Development Bank (ADB) and the Bank has actively provided on-lending project loans of MNT 6.1 billion to finance SME projects.

Corporate relations activities

In the reporting period, the Bank has activated its relationship with 156 corporate clients and provided banking products and services. Within this framework, the Bank organized seminars and workshops throughout the year to introduce banking products and services, to ensure active and daily usage of these services and to provide personal financial management knowledge to corporate employees.

Trade finance credit lines have increased by 23.3 percent

Trade finance credit line has increased by 23.3 percent as compared to the end of last year.



“TDB CAPITAL” LLC

6

Committed to providing tailored financial leasing services with high international standards, in June 2013, TDB Capital LLC established TDB Leasing LLC based on the clients’ demand with the joint investments of TDB and MG Leasing Corporation of Japan, a subsidiary company of Sumitomo Mitsui Finance and Leasing LLC and Marubeni Corporation.

"TDB Capital" LLC

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

Committed to providing tailored financial leasing services with high international standards, in June 2013, TDB Capital LLC established TDB Leasing LLC based on the clients' demand with the joint investments of TDB and MG Leasing Corporation of Japan, a subsidiary company of Sumitomo Mitsui Finance and Leasing LLC and Marubeni Corporation.

Corporate Finance

One of our main priorities is to provide underwriting service using our substantial experience of cooperation with reputable international investment banks and funds and to organize issuance of bonds 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.

Securities Trading

In connection with Mongolià s rapid economic growth and mining sector development, international investors show growing interest to 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.

For the first time in Mongolia, in 2013, TDB Capital introduced the free internet order service based on the clients' demand and requirements, providing the clients with the opportunity to participate in securitites trading from the distance and to increase the interest of the traders in stock trading. Furthermore, TDB Capital LLC established the branches in Erdenet and Darkhan cities to expand its brokerage activity.

Research Analysis

TDB Capital aims to provide its clients and investors with accurate information on macroeconomics, current market condition and future prospects in a swift manner in addition to conducting regular research on main economic sectors as well as Mongolian and foreign listed companies operating in Mongolia.

Asset Management

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

TREASURY MANAGEMENT

7

"TDB is leading player in the domestic money market, accounting for approximately 23.7% of total market share. It also dominates Mongolia's foreign exchange and gold bullion markets with a 33.0% and 51.0% market share respectively"

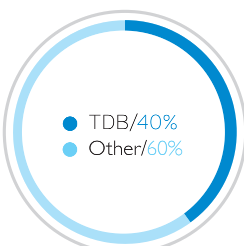
Treasury management

Money market

By significantly reducing the interest rate costs, augmenting the interest income with active participation of the Central bank bills and Government bonds trading and acting as the brokerage to the local and foreign investors for the bond trading, in line with its objective to improve the projection of cash flow and productivity, the Bank persisted its leading position on the money market.

The Bank successfully increased the return on assets by entering into the high liquid and low-risk assets, incorporating with internationally reputable banks and financial institutions, and participating secondary market bond trading, which were the main achievements of the Bank s money market activities.

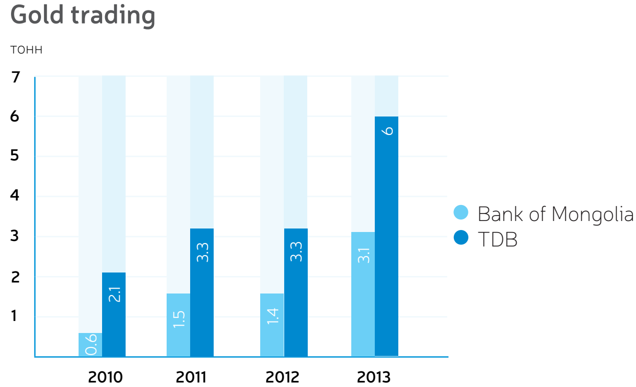
Goverment bond market share



Gold market

The Bank held its key position in the physical gold bullion market and continuously provided and offered its news products and market analysis to the customers, improved its settlement operations and extended the cutoff time to receive gold bars from the customers. As a result, the volume of the bullion gold bought from the customers was increased 2 times compared to the volume of previous year and relationship with the top gold mining companies has expanded.

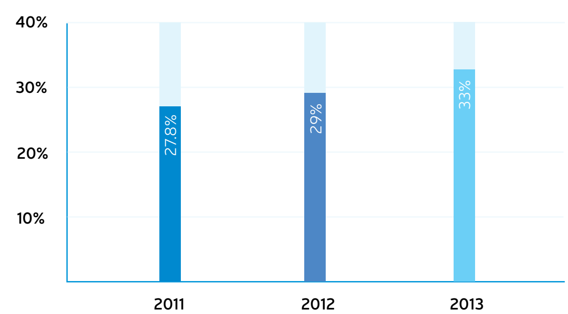
Gold trading



Foreign exchange market

Even though the domestic currency volatility with respect to the macro economic situation impacted to the currency exchange market, the Bank has effectively managed the foreign exchange risk and fullfilled the customerѕ needs by implementing efficient policy. By increasing the foreign exchange volume by 2.3 times from the volume of 2012 as well as participating in the "Price Stabilization Sub-Program" of Bank of Mongolia as the main implementer and swiftly executing the swap and forward transactions of petroleum companies, the Bank undoubtedly demonstrated its leading position in the Mongolian banking sector. Moreover, for the very first time in Mongolia, the Bank introduced a new product called "TDB Online" banking service, allowing customers to receive favourable foreign exchange rate and to execute transactions by using a convenient online banking service.

Foreign exchange market share



Asset and liability management

In 2013, as a result of effective management of the asset and liabiity, the Bank s total asset reached MNT 4.7 trillion, an increase of 54.9 percent and holdings of Government bond and Bank of Mongolia bills doubled and reached 20.7 percent of the total asset. During the reporting period, the total liabilities of the Bank increased by 88.1 percent to MNT 4.37 trillion and liquidity ratio increased from 37.2 to 42.4 percent.

RISK MANAGEMENT

8

"TDB accurately measured the risk level which may result from macroeconomic and other factors and implemented a proper management. As a result, the Bank ensured operational stability, increased its profitability and reduced NPL ratio to historical lowest of 1.07 percent in 2013"

Risk management

In 2013, the Mongolian economy experienced high growth rate and showed double digit growth. However, on the other hand, the country's foreign trade and foreign direct investment declined and the BoP /Balance of Payment/ deficit increased, resulting in sharp tugrik depreciation and causing certain risks in the banking industry over the past year.

Nevertheless, TDB accurately measured the risk level which may result from macroeconomic and other factors and implemented a proper management. As a result, the Bank ensured operational stability, increased its profitability and reduced NPL ratio to historical lowest of 1.07 percent in 2013.

Credit risk

The Bank has developed its loan portfolio risk management guidance to introduce Basel II, Basel III which are issued by the Basel Committee on Banking Supervision and improved its rating calculation model for large, small and medium sized borrowers in accordance with the international standards. Further, the Bank is aiming to introduce loan portfolio risk management guidance which is based on the internal rating method.

Moreover, the Bank paid more attention on the quality of loan portfolio to economic sectors with high concentration in the loan-portfolio and regularly conducted main economic sector and macroeconomic researches in order to identify and prevent potential risk.

With relation to the increased provisioning of mortgage loan with interest rate of 8 (±1) percent which has been implemented by the Government, the Bank took initiatives to maintain apartment price bubble and the Bank set reference house pricing by covering total of 204 apartments and towns in Ulaanbaatar, Darkhan and Erdenet city areas within the framework of limiting credit risk. Furthermore, the Bank created housing information database and improved its assessment model and methodologies.

The Bank successfully implemented internationally acknowledged Environmental and Social (E&S) Responsibility Policy in cooperation with the Netherlands Development Finance Company (FMO) including its implementation guidance and assessment tools. The international auditing firm, PricewaterhouseCoopers (PWC), evaluated the policy implementation as "good" in terms of the reporting year.

Therefore, the Bank introduced policy to all business loans and created assessment methods along with risk control system in order to avoid potential risks associated with Environmental and Social (E&S) Responsibility policy.

The Bank's stage of reducing credit risk

Loan request	Loan provisioning decision	Loan provisioning	Loan repayment
> Policy and regulation constraints > Loan collateral valuations	> Independent risk analyst opinion and participation	> Third-party monitoring to reduce potential operational risk	> Monitoring of high-risk loan

Market risk

The Bank has conducted macroeconomic, foreign economy and banking sector researches to improve main risk assessment methodologies and to evaluate potential risks. As a result, the Bank has been developing the basis that will develop every stage of the assessment tool which will then evaluate the Bank's main risks such as liquidity risk, interest rate risk, exchange risk, client, and counterparty and country risk management tools and has been executing it to its daily operations.

Exchange rate risk

The Bank has been working on setting the open position limit to reduce potential losses from exchange rate fluctuations by calculating the maximum amount of loss from each day and by setting up monitoring. Exchange rate fluctuations are calculated by "Conditional Value-at-Risk (VAR)" and the calculated results are double checked with GARCH, EWMA model. In 2013, VaR calculated results exceeded over the limit for only two times and our VAR calculated result belong in the "GREEN" zone in accordance with the Bank of Mongolia's "Regulation on Setting and Monitoring Prudential Ratios to Banks".

Country and counterparty risk

The Bank introduced "Counterparty and Country Risk Limit Policy", risk assessment methodology, based on the international best practice and recommendations. The policy is effective in limiting, monitoring and managing potential losses which may result from counterparty and country risks while managing financial operations in the international markets.

The Bank developed rating model according to Moody's evaluation method for the purpose of evaluating risk level of local commercial banks and as a result, the Bank is able to rank other banks by their risk level and the Bank has been setting commercial limits based on the ratings and other trading limits.

Operational risk

The Bank has been implementing operational risk management by determining risk levels based on performing risk determination analysis through ranking product and operation according to risk vulnerability and by conducting analysis of risk implications, risk probability and monitoring efficiency based on the international Basel regulations and by developing guideline on reducing risk and by providing it to related department and units.

Moreover, the Bank introduced review method for the risk determination operation to ensure performance of the guideline on reducing risk and to increase methods to prevent risk.

In 2013, the Bank renewed and approved its operational risk management policy and "Operational Risk Management Regulation", newly defined the concept of information technology risk, and considered information technology risk in all its products and services.

Money laundering and terrorism financing risk

The Bank has developed its anti-money laundering and counter-terrorism financing policy according to "The Law on Combating Money Laundering and Terrorism Financing" and recommendations and standards of local and international regulatory organizations and has been complying with the policy in its daily operation.

The Bank has been following international standards and requirement on anti-money laundering and counter-terrorism financing when opening an account for customers, providing banking products and services, executing payment orders, establishing correspondence and cooperating with international banks and financial institutions and adhering to Know Your Customer policy, reviewing transactions by comparing their details with the list of international regulatory organizations and conducting screen monitorings according to timely manner.

TDB has successfully implemented compliance program with PricewaterhouseCoopers (PwC), a multinational consulting firm, for the purpose of combating money laundering and terrorism financing and preventing related risks and thus, the Bank has further improved legal environment to combat money laundering and terrorism financing and achieved the prestige of the first bank to implement internationally recognized anti-money laundering program in Mongolia.

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INFORMATION TECHNOLOGY

“In 2013, TDB has reinforced its leading position in employing modern, fast and innovative products and services of information technology in its business and operation and successfully completed number of major projects”, such as Internet and Mobile banking.

Information technology

In 2013, TDB has reinforced its leading position in employing modern, fast and innovative products and services of information technology in its business and operation and successfully completed number of major projects.

Lending activities are accelerated

As a result of introducing additional collateral module system to the core banking system, employees' productivity level has increased, lending activity has accelerated and loan assessment period has further decreased.

Furthermore, the Bank automated the entire loan contracts and other contracts associated with customers in order to enhance internal operations and productivity level.

Comprehensive human resource program is implemented

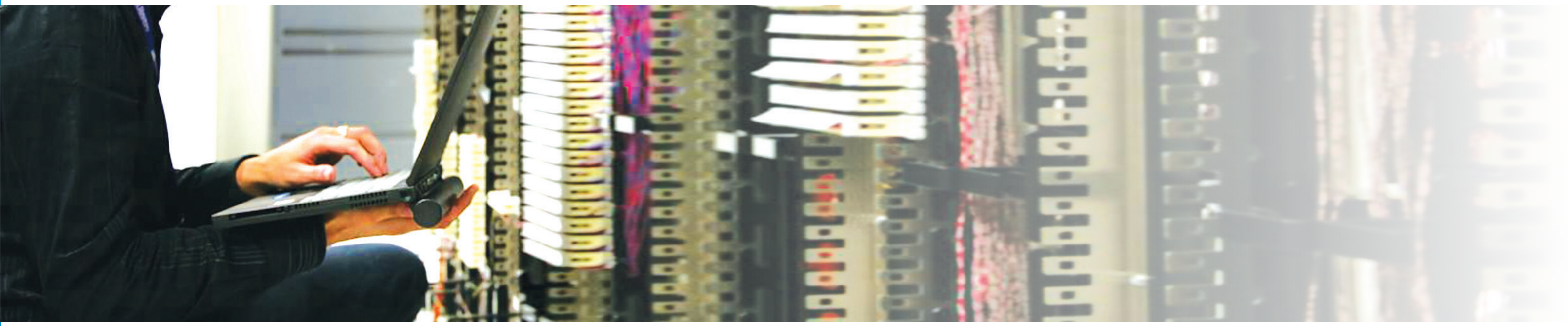
The Bank has internally developed and implemented a new comprehensive human resource program, which has been significantly beneficial in the Bank's human resource policy and personnel research.

Broker-dealer firms are able to receive online service

The Clearing Banking Software of the Bank for broker-dealer firms was upgraded with new possibilities, allowing firms and clients to receive real-time inquiry on their account and transaction information and directly transfer them to their own broker-dealer firm system. Therefore, the Bank has opened wide opportunities for firms and individuals who participate in the securities market.

Infrastructure required for accepting Union Pay Chip and JCB Cards is developed

TDB started accepting Union Pay chip card for the first time in Mongolia as the Bank developed infrastructure to receive Union Pay chip card and performed related software development tests. Moreover, the Bank implemented the work to create JCB card acceptance environment in cooperation with Bank of Mongolia and the Bank became the main gateway to accept JCB card for other banks in Mongolia.



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HUMAN RESOURCES MANAGEMENT

"The 2013 was the year to expand bank's operation, improve its market position. Our achievements were driven by timely with sound decisions and coordinated efforts of our team."

Human Resources management

In 2013, Human Resources (HR) operation mainly focused and aimed for the implementation of the TDB's mission and long-short term goals by incorporating HR strategies of creating efficient operation and positive environment for encouraged, talented and productive team, consisting with enthusiastic, accomplished and personally developed members, who are the key creator of TDB values and products and who are well-trained with leading management methods with following approaches:

> Improvement on processing of HR recruitment and selection

- Broad use of channels and fields for recruitments and hiring
- Inclusion of behavioral interview during selection process
- Use of team evaluation process for selection
- Review of selection result in certain period of time

> Compliance of HR planning with the Bank's goals and objectives of 2013

- Adaptation program
- Career growth and convertibility planning
- Training development planning
- Replacement and supply planning

> Human resource development

Creation of programs oriented towards associating with TDB objectives of increasing productivity and personal development

- To determine the realistic needs of training programs associated with the Bank objectives of 2013
- To broaden the scope of training, ensure involvements of each employees and consistent training
- To improve organization and methods of the employee training by combining traditional and modern techniques
- To train the trainee
- To develop the middle management
- To implement personal development program based on employee initiation and enthusiasm
- To ensure the development of effective programs accordingly

> Employee encouragement, motivation and commitment

- To partner with employee to develop methods of mutual understanding and implementation of corporate objectives
- To employ fair system of performance based salary and incentives
- To use of motivation methods with no involvement of material rewards
- To upgrade the level of corporate culture
- To expand possibilities of solving employees' social issues
- To acknowledge the employee on correlation of personal and team accomplishment and to enhance the involvement of employees

> Wide usage of the latest methods and media technology to increase productivity in HR operation

- To upgrade HR Program and Salary Program
- To create new sections of information and publish on the internal website
- To increase internal information speed by using the using internet and computer network

Indicators	Growth results of year-end 2013 compared to the same period in 2012
Number of employees	11.6%
Number of employees included in non-cash reward program	15.7%
Number of employees participated in trainings	8.8%
Productivity growth per employee	48.0%

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	USD	3582023404001
3	CITIBANK N.A.,	NEW YORK, USA	CITIUS33	USD	36202093
4	HSBC BANK USA N.A	NEW YORK, USA	MRMDUS33	USD	000304298
5	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM	USD	001201442 USD 400202
6	KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE	USD	963-THR-287-01-1
7	CHINA CONSTRUCTION BANK	HUHHOT, CHINA	PCBCCNBJNME	USD	15014150509220100065
8	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA	USD	0610040629200091076
9	OJSC SBERBANK, BAIKALSKY OFFICE	IRKUTSK, RUSSIA	SABRRU66	USD	30111840718000000007
10	BAO SHANG BANK	BAO TOU, CHINA	BTCBCNBJXXX	USD	001638896800060
11	OCBC BANK	SINGAPORE	OCBCSGSG	USD	503-071441-301
12	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM	USD	30111840900000000008
13	JSC VTB BANK	MOSCOW, RUSSIA	VTBRRUMM	USD	30111840855550000000
14	HANA BANK	SEOUL, KOREA	HNBNKRSEXXX	USD	06091000114631
15	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	USD	400878500800 USD
16	COMMERZBANK AG	FRANKFURT AM MAIN, GERMANY	COBADEFF	EUR	400878500801 EUR
17	ING BELGIUM NV/SA	BRUSSELS, BELGIUM	BBRUBEBB010	EUR	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	JPY	5793010
21	SUMITOMO MITSUI BANKING CORPORATION	TOKYO, JAPAN	SM-CJPJTXXX	JPY	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	CNY	15001658408052501192
26	BAO SHANG BANK	BAOTOU, CHINA	BTCBCNBJXXX	CNY	001638896800010
27	PUDONG DEVELOPMENT BANK OF SHANGHAI	SHANGHAI, CHINA	SPDB CNSH XXX	CNY	99010154100000100
28	BANK OF CHINA (HONG KONG) LIMTED	HONG KONG, CHINA	BKCHHKHH	CNY	012-875-60117544
29	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA	CNY	0610040629200090972
30	BANK OF CHINA, ERLIAN BRANCH	ERLIANHAOTE, CHINA	BKCHCNBJ89N	CNY	152418818188
31	HSBC BANK AUSTRALIA LTD	SYDNEY, AUSTRALIA	HKBAAU2S	AUD	011-795630-041
32	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	MELBOURNE, AUSTRALIA	ANZBAU3MXXX	AUD	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	RUB	30111810918000000002
36	JSC VTB Bank	MOSCOW, RUSSIA	VTBRRUMM	RUB	30111810455550000203
37	JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM	RUB	30111810800000000015
38	HONGKONG AND SHANGHAI BANKING CORPORATION LTD	AUCKLAND, NEW ZEALAND	HSBCNZ2A	NZD	040-013294-261
39	BANK OF TOKYO-MITSUBISHI UFJ LTD	HONG KONG	BOTKHKHH		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 SUBSIDIARIES

Consolidated Financial Statements
31 December 2013 and 2012

(With Independent Auditors' Report Thereon)

Ulaanbaatar
2014 он

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Table of Contents

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 subsidiaries (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 2013 and 2012 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.

Director
D. Erdenebileg

President
R. Koppa

Chief Executive Officer
B. Medree

Director of Financial Management and Control Department
D. Yanjmaa

Ulaanbaatar, Mongolia
Date : 21 March, 2014

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 subsidiaries (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013 and 2012, 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 audits. We conducted our audits 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 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 2013 and 2012, 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.

КЭЙ ПИ ЭМ ЖИ АУДИТ ХХК
KPMG AUDIT LLC
УЛААНБААТАР ХОТ
ТТ33977 5543495

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
21 March, 2014
Seoul, Korea

This report is effective as at 21 March, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

	Note	2013 MNT'000	2012 MNT'000
Assets			
Cash and due from banks	5	1,090,245,012	444,813,254
Investment securities	6	885,112,661	456,801,610
Investment in associates and joint ventures	7	10,416,001	2,385,599
Loans and advances, net	8	2,530,557,178	1,533,271,823
Subordinated loans	9	7,000,000	7,000,000
Property and equipment, net	10	153,297,326	131,590,999
Intangible assets, net	11	4,270,615	601,831
Investment property	12	33,388,245	-
Foreclosed real properties, net	13	6,057,155	157,148
Other assets	14	403,730,785	123,856,952
Total assets		5,124,074,978	2,700,479,216
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	15	2,139,692,149	1,402,326,763
Deposits and placements by banks and other financial institutions	16	172,109,699	36,518,483
Bills sold under repurchase agreements	17	372,650,503	1,495,638
Borrowings	18	1,157,090,928	232,964,084
Current tax liabilities		7,646,234	2,481,600
Debt securities issued	19	460,563,148	600,525,865
Subordinated debt securities issued	20	66,036,156	55,528,846
Other liabilities	21	379,224,697	128,761,887
Total liabilities		4,755,013,514	2,460,603,166
Equity			
Share capital	22	16,525,280	16,525,280
Share premium		19,272,456	19,272,456
Treasury shares	23	(2,620,626)	(2,620,626)
Revaluation reserves	10	18,555,196	18,555,196
Accumulated unrealised gain on available-for-sale financial assets	6	14,153,606	25,807,646
Retained earnings		301,599,783	162,336,098
Total equity attributable to equity holders of the Bank		367,485,695	239,876,050
Non-controlling interests	4	1,575,769	-
Total equity		369,061,464	239,876,050
Total liabilities and equity		5,124,074,978	2,700,479,216

See accompanying notes to the consolidated financial statements.

	Note	2013 MNT'000	2012 MNT'000
Interest income	25	321,438,593	213,335,115
Interest expense	26	(200,692,181)	(137,432,198)
Net interest income		120,746,412	75,902,917
Net fee and commission income	27	21,525,806	16,399,523
Other operating income, net	28	68,684,766	14,303,110
Net non-interest income		90,210,572	30,702,633
Operating income		210,956,984	106,605,550
Operating expense	29	(44,477,351)	(32,875,568)
Share of profit (loss) of an associate	7	204,056	(2,340,356)
Reversal of (provision for) impairment losses	30	(8,255,683)	6,554,436
Profit before tax		158,428,006	77,944,062
Income tax expense	32	(19,164,321)	(14,817,338)
Net profit for the year		139,263,685	63,126,724
Other comprehensive income for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	10	-	(146,870)
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	6	(11,654,040)	22,071,596
Other comprehensive income (loss)		(11,654,040)	21,924,726
Total comprehensive income for the year		127,609,645	85,051,450
Profit attributable to:			
Equity holders of the Bank		139,263,685	63,126,724
Non-controlling interests		-	-
Net profit for the year		139,263,685	63,126,724
Total comprehensive income attributable to:			
Equity holders of the Bank		127,609,645	85,051,450
Non-controlling interests		-	-
Total comprehensive income for the year		127,609,645	85,051,450

	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	Non-controlling interest MNT'000	Total equity MNT'000
		Attributable to equity holders of the Bank								
1 January 2013		16,525,280	19,272,456	(2,620,626)	18,555,196	25,807,646	162,336,098	239,876,050	-	239,876,050
Total comprehensive income										
Profit		-	-	-	-	-	139,263,685	139,263,685	-	139,263,685
Other comprehensive income										
Net unrealised change in fair value of available-for-sale financial assets	6	-	-	-	-	(11,654,040)	-	(11,654,040)	-	(11,654,040)
Acquisition of subsidiary with non-controlling interests	4	-	-	-	-	-	-	-	1,575,769	1,575,769
Total comprehensive income		-	-	-	-	(11,654,040)	139,263,685	127,609,645	1,575,769	129,185,414
31 December 2013		16,525,280	19,272,456	(2,620,626)	18,555,196	14,153,606	301,599,783	367,485,695	1,575,769	369,061,464

See accompanying notes to the consolidated financial statements.

	Note	Attributable to equity holders of the Bank							
		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	Total equity MNT'000
1 January 2012		6,610,113	7,392,191	(6,001,872)	18,702,066	3,736,050	108,976,296	139,414,844	139,414,844
Total comprehensive income									
Profit		-	-	-	-	-	63,126,724	63,126,724	63,126,724
Other comprehensive income									
Net unrealised change in fair value of available-for-sale financial assets	6	-	-	-	-	22,071,596	-	22,071,596	22,071,596
Revaluation gain amount transferred to retained earnings	10	-	-	-	(146,870)	-	148,245	1,375	1,375
Total comprehensive income		-	-	-	(146,870)	22,071,596	63,274,969	85,199,695	85,199,695
Transactions with owners of the Bank									
Contributions and distributions									
Increase in par value of the shares	22	9,915,167	-	-	-	-	(9,915,167)	-	-
Sale of treasury shares	23	-	11,880,265	3,381,246	-	-	-	15,261,511	15,261,511
Total contributions and distributions		9,915,167	11,880,265	3,381,246	-	-	(9,915,167)	15,261,511	15,261,511
31 December 2012		16,525,280	19,272,456	(2,620,626)	18,555,196	25,807,646	162,336,098	239,876,050	239,876,050

See accompanying notes to the consolidated financial statements.

	Note	2013 MNT'000	2012 MNT'000
Cash flows from operating activities:			
Net profit		139,263,685	63,126,724
Adjustments for:			
Depreciation and amortisation	10, 11, 29	4,168,064	2,763,673
Share of loss (profit) of an associate	7	(204,056)	2,340,356
Gain on disposition of securities		(27,696,971)	-
Net interest income	25, 26	(120,746,412)	(75,902,917)
Income tax expense	32	19,164,321	14,817,338
Loss on disposition of property and equipment		720	4,841
Property and equipment written off	29	18,772	28,716
Provision for (reversal of) impairment losses	30	8,255,683	(6,554,436)
Valuation gain on investment property	12	(7,171,395)	-
Other operating income		-	(542,915)
Operating profit before changes in operating assets and liabilities:		15,052,411	81,380
Increase in loans and advances	8	(1,011,604,706)	(405,634,813)
Decrease in bills purchased under resale agreement		-	36,966,114
Increase in other assets(*)	14	(255,666,692)	(60,851,432)
Increase in deposits from customers	15	737,365,386	125,030,801
Increase in deposits and placements by banks and other financial institutions	16	135,591,216	1,454,928
Increase in other liabilities(*)	21	240,554,846	41,979,569
Increase in balances with BOM	5, 34	(438,486,750)	(82,471,171)
Decrease in due from other financial instruments	34	-	3,613,520
Interest received		298,189,264	202,169,315
Interest paid		(187,720,638)	(121,796,735)
Income taxes paid		(14,001,498)	(13,836,926)
Net cash flows used in operating activities		(480,727,161)	(273,295,450)
Cash flows from investing activities:			
Purchase / increase of investment securities	6	(709,471,336)	(295,944,740)
Disposal / decrease of investment securities	6	297,198,079	207,955,765
Purchase of property and equipment	10	(49,148,114)	(55,343,822)
Purchase of intangible assets	11	(964,803)	(490,317)
Proceeds from disposal of foreclosed real properties	13	157,148	669,505
Proceeds from disposal of property and equipment	10	33,709	422,469
Purchase of investment in associates and joint ventures	7	(7,784,766)	(2,450,000)
Acquisition of subsidiary	4	(4,791,214)	-
Net cash flows used in investing activities		(474,771,297)	(145,181,140)

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

See accompanying notes to the consolidated financial statements.

	Note	2013 MNT'000	2012 MNT'000
Cash flows from financing activities:			
Proceeds / increase from borrowings	18	969,513,213	59,726,601
Repayments / decrease of borrowings	18	(45,386,369)	(1,143,033)
Net proceeds from (repayment of) bills sold under repurchase agreements	17	371,154,865	(169,988,831)
Proceeds / increase from debt securities issued	19	-	411,645,575
Repayments / decrease of debt securities issued	19	(143,293,377)	(19,828,992)
Proceeds / increase from subordinated debt securities issued	20	10,455,134	13,794,728
Sale of treasury shares	23	-	15,261,511
Net cash flows provided by financing activities		1,162,443,466	309,467,559
Net increase (decrease) in cash and cash equivalents		206,945,008	(109,009,031)
Cash and cash equivalents at beginning of year		194,277,433	303,286,464
Cash and cash equivalents at end of year	34	401,222,441	194,277,433

See accompanying notes to the consolidated financial statements.

1 Organisation and business

Trade and Development Bank of Mongolia LLC (the "Bank"), the controlling company, and its subsidiaries included in consolidation (together the "Group") are summarised as follows:

Controlling company

The Bank is a Mongolian domiciled limited liability company, incorporated in accordance with the Company Law of Mongolia. The Bank was given special permission to conduct banking activities by Decree No.3/149 issued by the President of the 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 25 settlement centers.

Subsidiaries included in consolidation

(i) TDB Capital LLC

The Bank established TDB Capital LLC ("TDBC"), 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.

(ii) TDB Media LLC

TDB Media LLC ("TDBM") was established in 2011.The Bank has been cooperating with Bloomberg L.P. to broadcast international financial news through TDBM, which is a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011. The Group additionally invested in TDBM on 19 November 2013 and the Group hold approximately 84.4% of TDBM as at 31 December 2013.

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. Consequently, US Global's ownership in the Group directly and indirectly through Globull amounted to approximately 73.14% as at 31 December 2013. Goldman Sachs owns 157,862 shares (or 4.78% interest) and approximately 18.27% of the Group's total outstanding ordinary shares are owned by various individuals as at 31 December 2013.

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 modified by the BOM guidelines 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 21 March, 2014.

Basis of measurement

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

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

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)

Changes in accounting policies

(i) IAS 1, 'Presentation of Financial Statements'

The Group has applied the amendments IAS 1, '*Presentation of Financial Statements'* since 1 January, 2013. The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Comparative information has been re-presented on the same basis.

(ii) IFRS 10, 'Consolidated Financial Statements'

The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.
Subsidiary is an entity that is controlled by another entity. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(iii) IFRS 11, 'Joint Arrangements'

The Group adopted IFRS 11, 'Joint Arrangements' since 1 January, 2013. The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognise an investment and to account for that investment using the equity method.

(iv) IFRS 12, 'Disclosure of Interests in Other Entities'

The Group adopted IFRS 12, 'Disclosure of Interests in Other Entities' since 1 January, 2013. The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests.

(v) IFRS 13, 'Fair Value Measurement'

The Group adopted IFRS 13, 'Fair Value Measurement' since 1 January, 2013. The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements.

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) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Intra-group 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. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iii) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

Business combination

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value.

As at the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

3 Significant accounting policies (continued)

Business combination (continued)

(ii) Goodwill

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognised immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the Group does not recognise goodwill since the transaction is regarded as equity transaction.

Investment in associates and joint ventures

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

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 to make payments on behalf of the investee for further losses.

3 Significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of available-for-sale equity investment (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss), are recognised in OCI.

Financial instruments

(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 recognised 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.

3 **<u>Significant accounting policies (continued)</u>**

Financial instruments (continued)

(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 if the financial assets are not subsequently accounted for at fair value through profit or loss. For financial assets at FVTPL, directly attributable transaction costs are recognised in profit or loss as incurred.

(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 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

The Group derecognises a financial assets 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.

3 Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

(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.

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 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

3 Significant accounting policies (continued)

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.

(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 3 years

Amortisation methods and amortisation periods are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is measured at fair value and changes in fair value are recognised in profit or loss.

Due to the commencement of owner-occupation or of development with a view to sale, the deemed cost of investment property carried at fair value transferred to owner-occupied property or inventories is the investment property's fair value at the date of change in use.

If an owner-occupied property becomes an investment property that will be carried at fair value due to the cease of owner-occupation, the Group shall revaluate it at the fair value at the date of change in use, and reclassify it to investment property.

3 Significant accounting policies (continued)

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) Loans and receivables

Loans and receivables are presented net of allowances for uncollectability. Allowances are made against the carrying amount of loans and receivables that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and receivables 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 receivables 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.

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.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3 Significant accounting policies (continued)

Impairment (continued)

(iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognised in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iv) Assets other than financial instruments

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.

3 Significant accounting policies (continued)

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.

(iii) Non-controlling interests

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3, 'Business Combinations' and the non-controlling interests share of changes in equity since the date of the combination.

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.

3 Significant accounting policies (continued)

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 amortise loan originating costs and fees on an effective interest rate basis but rather recognises them in profit or loss as incurred.

(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.

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.

3 Significant accounting policies (continued)

Dividends

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

New standards and interpretations not yet adopted

The following amendment to an existing standard has been published and is mandatory for the Group for annual periods beginning on or after 1 January, 2014, and the Group has not early adopted them.

(i) Amendments to IAS 32, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after 1 January, 2014 with earlier application permitted. The amendments are not expected to have a material effect on the Group's financial statements.

4 Acquisition of Subsidiary

Business combination

On 19 November, 2013 the Group obtained control of TDB Media LLC ("TDBM"), a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011 by acquiring additional shares and voting interests in TDBM. As a result, the Group's equity interest in TDBM increased from 49% to approximately 84.4%.

Even though the Group took control of TDBM on 19 November 2013, the Group deemed the acquisition date as 31 December 2013 since there were no significant transactions between the acquisition date and the end of the reporting period. As a result, the Group did not include total comprehensive income of TDBM in the consolidated financial statements as at and for the year ended 31 December 2013.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash	5,240,000
Buildings	6,060,000
Total consideration transferred	11,300,000

The fair value of buildings was based on the market approach.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Intangible assets	389,670
Other assets	987,741
Other liabilities	(321,068)
Total identifiable net assets acquired	10,072,564

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2013 MNT'000
Consideration transferred	11,300,000
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of TDBM	1,575,769
Fair value of pre-existing interest in TDBM	-
Fair value of identifiable net assets	10,072,564
Goodwill	2,803,205

4 Acquisition of Subsidiary (continued)

Goodwill (continued)

The goodwill is attributable mainly to broadcast rights and license by the Mongolia Telecommunication Regulatory Commission. None of the goodwill recognised is expected to be deductible for tax purposes.

Non-controlling interest

The following table summarises the information relating to non-controlling interest ("NCI") in TDBM.

31 December 2013
(In MNT'000)

	TDB Media LLC
NCI percentage	15.64417%
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Other assets	1,377,411
Liabilities	(321,068)
Net assets	10,072,564
Carrying amount of NCI	1,575,769

5 Cash and due from banks

	2013 MNT'000	2012 MNT'000
Cash on hand	64,232,328	55,558,591
Deposits and placements with banks and other financial institutions	336,990,113	138,718,842
Balances with BOM(*)	689,022,571	250,535,821
	1,090,245,012	444,813,254

(*) At 31 December 2013, BOM requires that a minimum 12% of average customer deposits for two weeks (12% at 31 December 2012) 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 2013 and 2012, the required reserve amount was MNT 355,888,347 thousand and MNT 255,054,560 thousand, respectively.

6 Investment securities

	2013 MNT'000	2012 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	443,430	1,527,104
Equity securities, at fair value(*2)	3,980,015	47,462,745
Government bond	611,714,016	-
BOM treasury bills	-	46,183,485
Residential mortgage-backed securities(*3)	108,475,200	-
	724,612,661	95,173,334
Held-to-maturity investment securities		
Government bonds	160,500,000	359,931,276
Asset-backed securities(*4)	-	1,697,000
	160,500,000	361,628,276
	885,112,661	456,801,610

(*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) For the year ended 31 December 2013, unrealised gain of MNT 1,715,187 thousand arising from changes in the fair value of such investment was recognised directly in equity as other comprehensive income. Also, the Group sold equity securities, MRC shares to a third party on 27 December 2013. The carrying amount of MRC shares was MNT 45,197,917 thousand.

(*3) Residential mortgage-backed securities represent senior and junior notes issued by MIK active one SPC ("MIK SPC").

(*4) Asset-backed securities mainly consist of notes issued by Mongolian Mortgage Corporation LLC ("MIK").

7 Investment in associates and joint ventures

	2013 MNT'000	2012 MNT'000
Investment in MIK(*1)	8,679,033	2,385,599
Investment in MG Leasing LLC(*2)	1,736,968	-
	10,416,001	2,385,599

(*1) The Group made additional investment of MNT 6,011,157 thousand in June 2013. As a result of this transaction, the Group's ownership interest in MIK increased to approximately 35.57% as at 30 June 2013. MIK increased paid in capital in August 2013, the Group's ownership interest in MIK decreased to approximately 35.45%. As a result, the Group recognised gain on disposal of MIK of MNT 41,579 thousand. In applying the equity method, the Group used the financial information of MIK as at 31 December 2013. The Group recognised its share of gain of MIK of MNT 240,698 thousand and MNT 109,644 thousand in 2013 and 2012, respectively.

(*2) In 2013, the Group entered into a MNT 1,773,610 thousand investment acquiring a 55% equity interest in MG Leasing LLC ("MGLL") which is a joint venture established by the Group and MGL corporation. For MGLL, the Group owns 55% of the equity interests. However, as decision about relevant activities require the unanimous consent of the parties sharing control, the Group does not deem MGLL as a subsidiary but as a joint venture. In applying the equity method, the Group used the financial information of MGLL as at 31 December 2013. The Group recognised its share of loss of MGLL of MNT 36,642 thousand in 2013.

Condensed financial statements of associates as at 31 December 2013 and 2012, and for the years ended 31 December 2013 and 2012 were as follows:

	2013 MNT'000		2012 MNT'000	
Investees	Asset	Liability	Asset	Liability
MIK	33,579,334	9,482,964	18,344,787	10,809,499
MGLL	3,427,503	269,379	-	-

	2013 MNT'000		2012 MNT'000	
Investees	Operating revenue	Net income	Operating revenue	Net income
MIK	2,594,106	738,552	2,362,788	427,121
MGLL	288,903	(66,621)	-	-

8 Loans and advances

	2013 MNT'000	2012 MNT'000
Loans and advances to customers	2,525,080,548	1,530,158,608
Loans to executives, directors and staffs	23,518,635	16,605,055
	2,548,599,183	1,546,763,663
Allowance for loan losses	(18,042,005)	(13,491,840)
	2,530,557,178	1,533,271,823

Movements in the allowance for loan losses for the years ended 31 December 2013 and 2012 were as follows:

	2013 MNT'000	2012 MNT'000
At 1 January	13,491,840	17,919,809
Provision (reversal) for the year, net	4,640,541	(4,305,104)
Written off	(90,376)	(122,865)
At 31 December	18,042,005	13,491,840

Transfers that do not qualify for derecognition

In 2008, the Group transferred its mortgage loans with carrying amounts of MNT 404,864,410 or USD 294,334 to MIK 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 MIK.

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 MIK. Recourse condition, as stipulated in the respective loan purchase agreements, requires the Group to exchange a previously transferred mortgage loan to MIK with a performing loan in case of default. Accordingly, the Group accounted for these transactions as collateralised financing.

The carrying amounts and fair value of the transferred assets and the associated liabilities as at 31 December 2013 and 2012 were as follows:

	2013 MNT'000	2012 MNT'000
Carrying amount		
Transferred assets	-	1,531,618
Associated liabilities	-	(1,531,618)
Fair value		
Transferred assets	-	1,693,222
Associated liabilities	-	(1,693,222)
Net position	-	-

The mortgage loans were wholly repurchased during the year ended 31 December 2013.

In addition, the Group transferred its mortgage loan with carrying amounts of MNT 107,993,483 thousand to MIK SPC. This transaction qualified for derecognition.

9 Subordinated loans

	2013 MNT'000	2012 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 a 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 at 31 December 2013 and 2012 were as follows:

31 December 2013
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/revaluation					
At cost	31,801,511	5,378,533	8,692,670	74,660,287	120,533,001
At revaluation	18,555,196	-	-	-	18,555,196
At 1 January 2013	50,356,707	5,378,533	8,692,670	74,660,287	139,088,197
Additions	6,060,000	1,285,939	3,221,711	38,580,464	49,148,114
Disposals	-	(145,661)	-	-	(145,661)
Write offs	-	(91,934)	(413,294)	-	(505,228)
Transfers	(26,096,391)	-	-	(966,164)	(27,062,555)
Acquisition of subsidiary	-	2,492,130	15,305	-	2,507,435
At 31 December 2013	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Measured at:					
Cost	11,765,120	8,919,007	11,516,392	112,274,587	144,475,106
Revaluation	18,555,196	-	-	-	18,555,196
	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Accumulated depreciation					
At 1 January 2013	974,265	2,195,995	4,326,938	-	7,497,198
Charge for the year	1,515,863	552,102	1,611,205	-	3,679,170
Disposals	-	(111,232)	-	-	(111,232)
Write-offs	-	(78,277)	(408,178)	-	(486,455)
Transfers	(845,705)	-	-	-	(845,705)
At 31 December 2013	1,644,423	2,558,588	5,529,965	-	9,732,976
Carrying amounts					
At 13 December 2013	28,675,893	6,360,419	5,986,427	112,274,587	153,297,326

10 Property and equipment (continued)

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)
At 31 December 2012	50,356,707	5,378,533	8,692,670	74,660,287	139,088,197
Measured 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 13 December 2012	49,382,442	3,182,538	4,365,732	74,660,287	131,590,999

Revaluation surplus of MNT 146,870 thousand were released into retained earnings in 2012 upon write-off.

Construction-in-progress account mainly consists of 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 2014. There were no capitalised borrowing costs related to the acquisition of property and equipment during 2013 and 2012.

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 at 31 December 2013 and 2012 would be as follows:

	2013 MNT'000	2012 MNT'000
Buildings	13,133,580	33,456,513

11 Intangible assets and goodwill

	2013 MNT'000	2012 MNT'000
Cost		
At 1 January	3,271,779	2,781,462
Additions		
Software	964,803	490,317
Goodwill	2,803,205	-
Write-off	(153,069)	-
Acquisition of subsidiary	389,669	-
At 31 December	7,276,387	3,271,779
Amortisation		
At 1 January	2,669,948	2,348,064
Amortisation charge for the year(*)	488,894	321,884
Write-off	(153,070)	-
At 31 December	3,005,772	2,669,948
Carrying amounts		
At 31 December	4,270,615	601,831

(*) Amortisation is charged for software only.

12 Investment property

	2013 MNT'000	2012 MNT'000
At 1 January	-	-
Reclassification from property and equipment	26,216,850	-
Change in fair value	7,171,395	-
At 31 December	33,388,245	-

The Group reclassified NCP Tower to investment property from property and equipment due to a change in the Group's plan for the future use.

The fair value of investment property was appraised by an independent professional valuation company. The independent appraiser provides the fair value of the Group's investment property portfolio every year.

The fair value measurement for investment property of MNT 33,388,245 thousand has been categorised as level 3 based on the inputs used in the valuation techniques.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	2013 MNT'000	2012 MNT'000
Beginning balance	-	-
Reclassification from property and equipment	26,216,850	-
Changes in fair value (unrealised)	7,171,395	-
Ending balance	33,388,245	-

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market price approach	Average selling price for proxy buildings MNT 6,394,500 Discount rate 16%	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings were higher(lower); Discount rate were lower (higher);
Income approach	Average rental income MNT 65,000 Capitalisation rate 11.29%	The estimated fair value would increase (decrease) if: Expected market rental income were higher (lower); The capitalisation rate were lower(higher);

13 Foreclosed real properties

	2013 MNT'000	2012 MNT'000
Industrial buildings	9,678,810	26,500
Apartment buildings	-	136,426
Less: Allowances	(3,621,655)	(5,778)
	6,057,155	157,148

Properties acquired through foreclosure are initially recognised 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 2013 and 2012, an allowance of MNT 473,649 thousand and MNT 247,463 thousand were written back upon disposition of foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

14 Other assets

	2013 MNT'000	2012 MNT'000
Precious metals	3,601,016	25,033,389
Accrued interest receivables	47,376,786	24,165,543
Prepayment	7,425,555	805,450
Inventory supplies	1,030,271	829,933
Spot trading receivables	276,359,629	65,414,600
Derivative assets	64,719,231	283,676
Other receivables, net	2,293,214	7,324,361
Other	925,083	-
	403,730,785	123,856,952

Other receivables are presented net of impairment losses amounting to MNT 2,830 thousand and MNT 153,689 thousand as at 31 December 2013 and 2012, respectively.

15 Deposits from customers

	2013 MNT'000	2012 MNT'000
Current accounts	824,435,400	599,471,005
Savings deposits	260,411,572	200,121,416
Time deposits	1,024,854,327	579,734,505
Other deposits	29,990,850	22,999,837
	2,139,692,149	1,402,326,763

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 1.35% and 3.84% (2012: 1.2% and 3.35%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.91% and 6.65% (2012: 2.0% and 6.5%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 5.95% and 11.88% (2012: 6.7% and 12.5%), respectively.

16 Deposits and placements by banks and other financial institutions

	2013 MNT'000	2012 MNT'000
Current accounts deposits:		
Foreign currency deposits	8,099,760	13,641,083
Local currency deposits	6,252,719	88,608
Foreign currency cheques for selling	316,883	223,737
Deposits from banks	157,440,337	22,565,055
	172,109,699	36,518,483

17 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2013 MNT'000	2012 MNT'000
Credit bank	26 Dec 2012	2 Jan 2013	15.00%	-	1,495,638
Bank of Mongolia	31 Dec 2013	2 Jan 2014	12.50%	372,650,503	-
				372,650,503	1,495,638

The Group entered into repurchase agreements with Credit bank and BOM, respectively, respective agreements where the Group sold BOM treasury bills and government bonds under repurchase agreements at an aggregate amount of MNT 560,145,000 thousand and MNT 1,500,000 thousand, respectively, at various maturities. The securities sold are collateralised for the payables pertaining to the respective agreements.

18 Borrowings

	2013 MNT'000	2012 MNT'000
Kreditanstalt fuer Wiederaufbau	8,903,933	5,396,917
World Bank	3,153,755	4,841,873
Asian Development Bank	1,533,152	1,518,287
International Development Association	849,772	731,879
Export-Import Bank of Korea	17,911,647	22,154,841
VTB Bank (Austria) AG	-	10,440,750
Export-Import Bank of Republic of China	15,242	694,809
Japan International Cooperation Agency	17,719,975	17,044,943
Atlantic Forfaitierungs AG	500,353	4,518,726
SME Project Fund from MoF	63,813,541	71,457,399
Commerzbank AG	27,142,828	1,850,613
Industrial and Commercial Bank of China	-	6,120,880
ING Bank	8,767,578	5,995,455
Baoshang Bank	1,939,686	1,912,513
Mongolian Mortgage Corporation LLC("MIK")	-	1,531,618
Sumitomo Mitsui Banking Corporation	41,342,373	951,390
Netherlands Development Finance Company	16,541,000	13,921,000
Bank of China (Hong Kong) Ltd	-	550,381
Mongolian Stock Exchange	1,953,003	1,643,658
China Trade Solutions	188,784	78,310
Bank of Mongolia sub project	381,870,711	52,730,928
Mortgage Financing Programme by BOM	362,000,000	-
Standard Chartered Bank	-	6,876,914
MG Leasing Corporation	46,906	-
Russian Agricultural Bank	14,886,900	-
Unicredit S.p.A.	75,405	-
TDB Syndicated Facility	131,349,084	-
Cargil TSF Asia Pte.Ltd	54,585,300	-
	1,157,090,928	232,964,084

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 3,912,733 and EUR 2,939,770 at 31 December 2013 and 2012, 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.

18 Borrowings (continued)

World Bank

	2013 MNT'000	2012 MNT'000
Loan I	-	24,568
Loan II	3,153,755	4,817,305
	3,153,755	4,841,873

Loan I

In 2003, the Group entered into the Project Agreement with World Bank under the World Bank Training Programme 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 programme amounted to nil and USD 17,648 at 31 December 2013 and 2012, 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 804,800 and USD 1,867,192 at 31 December 2013 and 2012, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum. 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 MNT 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 1,450 million and MNT 1,877 million at 31 December 2013 and 2012, 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. 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 Programme loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development programme, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this programme amounted to USD 225,091 and USD 245,151 at 31 December 2013 and 2012, 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.

18 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 80,498 and USD 84,970 at 31 December 2013 and 2012, 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 related to the development of agriculture and rural areas. 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 in MNT. The outstanding MNT loan amounted to approximately MNT 1,400 million as at 31 December 2013.

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 513,737 and USD 525,737 at 31 December 2013 and 2012, 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 July 2012, the maximum amount of facility increased to USD 30,000,000. The outstanding borrowings under this line of credit agreement amounted to USD 10,828,636 and USD 15,914,691 at 31 December 2013 and 2012, respectively. This line of credit expires in December 2015, 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.

18 Borrowings (continued)

VTB Bank (Austria) AG ("VTB")

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. The outstanding borrowings under agreement amounted to USD 7,500,000 at 31 December 2012 and it was fully repaid in 2013.

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

In 2004, the Group entered into a 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 9,215 and USD 499,108 at 31 December 2013 and 2012, 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 2015.

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 channeled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development and Environmental Protection. The outstanding USD loan amounted to USD 290,500 and USD 352,500 at 31 December 2013 and 2012, respectively. The loan bears interest at six-month LIBOR USD rate plus a margin of 1%per annum. 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 1,930 million and MNT 878 million at 31 December 2013 and 2012, 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

(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 channeled to various borrowers for the second phase of developing SME Development and Environmental Protection purposes. The outstanding loans amounted to approximately USD 930,000 and MNT 13,772 million at 31 December 2013, and USD 930,000 and MNT 14,382 million at 31 December 2012. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The maturity dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

18 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 302,493 and USD 3,245,978 at 31 December 2013 and 2012, 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 Jun 2016 and bears interest at a fixed rate of 1.2% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 15,697 million and MNT 19,318 million at 31 December 2013 and 2012, respectively. In 2013, the Bank signed a new facility agreement with the Ministry of Labor within the above mentioned credit programme. In this facility agreement, Development Bank of Mongolia participated in the programme and financed a MNT 3,173 million sub loan to the Bank in 2013. This credit facility expires in December 2017 and bears interest at a fixed rate of 1.8% per annum depending on the finances of Development Bank of Mongolia. The outstanding borrowings under this credit facility amounted to MNT 3,122 million at 31 December 2013.

(b) In October 2011, the Group signed a 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 August 2017 and bears interest at a fixed rate of 0.6% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to approximately MNT 44,995 million and MNT 52,139 million at 31 December 2013 and 2012, respectively.

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 13,299,538 and USD 1,329,368 and EUR 2,260,500 at 31 December 2013 and USD 1,329,368 at 31 December 2012 maturing in November 2014.

Industrial and Commercial Bank of China ("ICBC")

In 2013, the Group borrowed USD 271,943 from ICBC to promote imports from China and bears interest as defined by the Central Bank of China on a case by case basis. The Group has outstanding loans of USD 4,396,868 at 31 December 2012 and it was repaid in October 2013.

18 Borrowings (continued)

ING Bank

In 2011, the Group obtained a trade finance line with ING Bank under which the Group could borrow up to EUR 15,000,000 for relending purposes or confirmations of letter of credit(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 2,469,929 and USD 4,306,770 at 31 December 2013 and 2012, respectively and EUR 2,057,482 at 31 December 2013. The loan matures in October 2014.

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 2013, 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 and repaid in November 2013.

(b) The Group obtained a CNY loan in the amount of CNY 7,108,203 and CNY 4,074,272 at 31 December 2013 and 2012. This facility expires in December 2014.

Mongolian Mortgage Corporation LLC (“MIK”)

The Group transferred certain mortgage portfolios to MIK in 2009 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 MIK. Accordingly, the Group accounted for these transactions as collateralised financing. See note 8 for further details of the transactions. The Group repurchased the mortgage portfolio from MIK in July 2013.

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 45,000,000 for further relending to customers. The maturity dates and interest for the facilities vary in accordance with the tenor of each advance, up to 12 and 18 months. The outstanding SMBC loan amounted to USD 14,675,112 and JPY 1,087 million at 31 December 2013 and USD 683,421 at 31 December 2012 with the final maturity of November 2014.

Netherlands Development Finance Company (“FMO”)

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 2013 and 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.

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. The loan outstanding of Bank of China (Hong Kong) Ltd. amounted USD 395,360 at 31 December 2012 and it was repaid in 2013.

18 Borrowings (continued)

Mongolian Stock Exchange

The Group arranged a syndicated Loan to Mongolian Stock Exchange with participation of Mongolian commercial banks. At 31 December 2013 and 2012, the Group has arranged the following loans under this facility:

(a) Total participation of commercial banks 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

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. The outstanding China Trade Solutions loan amounted to USD 114,131 and USD 56,253 at 31 December 2013 and 2012 respectively. This loan matures in April 2014.

Bank of Mongolia sub project

In 2013, the Group has continued to act as a participant bank within the relending agreement with the Bank of Mongolia Midterm Sub-programme named "To stabilise price of basic commodities and products" consists of four sub programs: i) price stability of staple food; ii) fuel retail price stability; iii) reducing the cost of imported consumption goods; and iv) promoting the construction sector and achieving stability of housing prices. Within the programme total of over 40 borrowers have successfully taken out loans at flexible conditions that were provided by the programme; the outstanding of the loan portfolio regarding the above mentioned sub programme at 31 December 2013 is MNT 381.9 billion.

Mortgage Financing Programme by BOM

In 2013, the Group entered into credit facility loan agreement titled "Mortgage financing from Bank of Mongolia provided to banks" with Bank of Mongolia. The intended purpose is to support the middle class and support the long-term sustainable economic growth by increasing the savings of the middle class. The outstanding Bank of Mongolia loan amounted to MNT 362 billion at 31 December 2013. The loan MNT 235 billion and MNT 127 billion mature in March and June 2014, respectively and bears interest at a fixed rate of 4.00% 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 utilises the facility to on-lend the proceeds to gold producers in Mongolia. This loan was fully repaid in 2013

MG Leasing Corporation

In September 2013, the Group entered into a USD 1,000,000 Facility Agreement with MG Leasing Corporation under which the Group utilises the facility to on-lend the proceeds to Mongolian knitting companies which are purchasing machines from Shima Seiki MFG Ltd. with the final maturity of existing loan in September 2015. The outstanding loan amounted to USD 28,357 at 31 December 2013.

18 Borrowings (continued)

Russian Agricultural Bank (RHB)

RHB bank approved a trade finance limit in 2009, for the purpose of relending to the customer. In March and August 2013, the Group entered into Loan Agreement of USD 10 million and USD 9 million. Respectively, for the financing of trade related transactions with maturity of September 2013 and August 2014, respectively. The outstanding loan amounted to USD 9,000,000 at 31 December 2013.

UniCredit S.p.A.

In 2012, the Group obtained a trade finance facility line available by confirmation of letters of credit(LC) from UniCredit S.p.A. in Italy. In addition to this line, UniCredit S.p.A. provided the Group an LC post-shipment financing, which was granted to a confirmed letter of credit available for sight payment in favor of the Italian beneficiary. This post-shipment financing is for financing up to 100% of the supply of goods. The outstanding loan amounted to EUR 33,136 at 31 December 2013 and the final repayment is due in July 2014.

TDB Syndicated Facility

In September 2013, the Group entered into A/B Syndicated Term Facility Agreement with Netherlands Development Finance Company (FMO). The syndicated term facility of USD 82,000,000 comprised of development tranche ('A' loan) of USD 35,000,000 arranged by FMO and joined by International Investment Bank and of commercial tranche ('B' loan) of USD 47,000,000 arranged by ING Bank N.V. and TDB Capital LLC. The 'B' loan participations were received from AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group. The proceeds of the Facility will be used to finance general funding requirements of TDB including on-lending to its customers. The principal is payable in accordance with the facility agreement and the interest is repayable semi-annually until final repayment due in September 2018. The rate of interests on each loan is the percentage rate per annum, which is the aggregate of the applicable margin and LIBOR. The outstanding loan amounted to USD 82,000,000 at 31 December 2013.

Cargil TSF Asia Pte. Ltd

In October 2013, the Group entered into a Trade related Loan Agreement under which the Group for financing of import of goods for the total amount of USD 33,000,000 with maturity of October 2014.

19 Debt securities issued

	2013 MNT'000	2012 MNT'000
Debt securities issued, at amortised cost	460,563,148	600,525,865

On 25 October 2010, the Group issued USD 150,000,000 senior notes 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 principle was due on 25 October 2013 and was paid in full as scheduled. 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 2013 and 2012, the respective debt securities accreted by MNT 3,330,660 thousand and MNT 1,575,241 thousand, respectively, using the effective interest method.

20 Subordinated debt securities issued

	2013 MNT'000	2012 MNT'000
Subordinated debt, at amortised cost	66,036,156	55,528,846

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 2013 and 2012, the respective debt securities accreted by MNT 52,176 thousand and MNT 40,596 thousand, respectively, using the effective interest method.

21 Other liabilities

	2013 MNT'000	2012 MNT'000
Accrued interest payables	46,808,093	37,219,386
Delay on clearing settlement	7,111,587	16,023,299
Spot trading payables	276,314,010	65,414,600
Derivative liabilities	39,744,994	901,408
Dividends payable	-	365,945
Others	9,246,013	8,837,249
	379,224,697	128,761,887

22 Share capital

	Number of ordinary shares 2013	Number of ordinary shares 2012	2013 MNT'000	2012 MNT'000
At 1 January	3,305,056	3,305,056	16,525,280	16,525,280
Issued during the year	-	-	-	-
At 31 December	3,305,056	3,305,056	16,525,280	16,525,280

At 31 December 2013 and 2012, 3,305,056 shares were issued and outstanding out of a total 4,000,000 authorised shares. During 2012, the Group increased the par value of its shares from MNT 2,000 to MNT 5,000. All issued shares were fully paid and have a par value of MNT 5,000 as at 31 December 2013 and 2012.

23 Treasury shares

	2013 MNT'000	2012 MNT'000
At 1 January	2,620,626	6,001,872
Sale of treasury shares	-	(3,381,246)
At 31 December	2,620,626	2,620,626

February 2012, the Group sold treasury shares (4.78% of outstanding ordinary shares) to Goldman Sachs. The outstanding treasury shares were 126,015 shares, representing approximately 3.81% of the total issued and outstanding ordinary shares as at 31 December 2013 and 2012.

24 Accumulated other comprehensive income

	2013 MNT'000		
	Net change in fair value of available for sale financial assets	Revaluation reserve	Total
Beginning balance	25,807,646	18,555,196	44,362,842
Change due to fair value	12,433,069	-	12,433,069
Change due to disposal	(24,087,109)	-	(24,087,109)
Ending balance	14,153,606	18,555,196	32,708,802

	2012 MNT'000		
	Net change in fair value of available for sale financial assets	Revaluation reserve	Total
Beginning balance	3,736,050	18,702,066	22,438,116
Change due to fair value	22,071,596	-	22,071,596
Change due to disposal	-	(146,870)	(146,870)
Ending balance	25,807,646	18,555,196	44,362,842

25 Interest income

	2013 MNT'000	2012 MNT'000
Loans and advances	245,951,452	189,057,696
Investment securities	67,687,193	19,612,388
Deposits and placements with banks and other financial institutions	7,100,330	3,633,885
Bills purchased under resale agreements	15,174	345,715
Subordinated loans	684,444	685,431
	321,438,593	213,335,115

26 Interest expense

	2013 MNT'000	2012 MNT'000
Deposits	112,716,592	84,561,895
Borrowings	23,632,501	8,354,075
Bills sold under repurchase agreements	367,689	8,480,522
Debt securities issued	56,922,469	30,177,065
Subordinated debt securities issued	7,052,930	5,858,641
	200,692,181	137,432,198

27 Net fee and commission income

	2013 MNT'000	2012 MNT'000
Fee and commission income		
Wire transfer	5,186,029	4,737,795
Card service	8,132,016	5,561,809
Loan related service	8,582,285	6,708,523
Others	2,319,933	1,459,222
Total fee and commission income	24,220,263	18,467,349
Fee and commission expenses		
Card service expense	1,826,902	1,446,489
Others	867,555	621,337
Total fee and commission expenses	2,694,457	2,067,826
Net fee and commission income	21,525,806	16,399,523

28 Other operating income, net

	2013 MNT'000	2012 MNT'000
Foreign exchange gain, net	32,411,745	12,845,020
Precious metal trading gain, net	1,217,060	649,390
Gain on disposition of securities	27,696,971	-
Valuation gain on investment property	7,171,395	-
Other	187,595	808,700
	68,684,766	14,303,110

29 Operating expenses

	2013 MNT'000	2012 MNT'000
Personnel expense	18,558,043	16,475,250
Depreciation on property and equipment (note 10)	3,679,170	2,443,164
Amortisation on intangible assets (note 11)	488,894	321,883
Advertising and public relations	3,639,704	2,686,396
Rental expenses	2,790,943	2,390,011
Professional fees	1,299,978	1,327,080
Technical assistance and foreign bank remittance fees	870,112	988,842
Write-off of property and equipment	18,772	34,435
Insurance	4,075,927	74,795
Business travel expenses	797,023	553,586
Cash handling	949,888	805,856
Stationary and supplies	611,870	552,100
Communication	2,998,039	790,369
Training expenses	296,530	329,383
Utilities	429,921	351,166
Repairs and maintenance	305,747	314,438
Security	140,361	119,301
Meals and entertainment	678,216	483,433
Transportation	339,884	278,900
IT maintenance	940,518	800,035
Others(*)	567,811	755,145
	44,477,351	32,875,568

(*) Others includes costs incurred for loan collections, cleaning and other miscellaneous administrative expenses.

30 Reversal of (provision for) impairment losses

	2013 MNT'000	2012 MNT'000
Reversal of (provision for) Impairment losses for loans	(4,640,541)	4,305,103
Reversal of (provision for) impairment losses for other assets and foreclosed real properties	(3,615,142)	2,249,333
	(8,255,683)	6,554,436

31 Leases

The Group leases some of its branch offices 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 2013 and 2012 were as follows:

	2013 MNT'000	2012 MNT'000
Within a year	2,330,442	1,911,179
1 – 5 years	2,558,621	2,944,352
Thereafter	-	-
	4,889,063	4,855,531

32 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2013 MNT'000	2012 MNT'000
Income tax expense – current year	19,164,321	14,817,338

Reconciliation of effective tax expense:

	2013 MNT'000	2012 MNT'000
Profit before tax	158,428,006	77,944,062
Tax at statutory income tax rate	39,157,002	19,036,016
Tax effect of non-deductible expense	486,895	259,692
Tax effect of non-taxable income	(20,304,258)	(4,419,312)
Effect of tax rates in subsidiaries	(172,906)	(58,617)
Other	(2,412)	(441)
	19,164,321	14,817,338

Pursuant to Mongolian Tax Laws, the Group is required to pay 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.

33 Dividends

There were no dividends declared for the years ended 31 December 2013 and 2012.

34 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 2013 and 2012 were as follows:

	2013 MNT'000	2012 MNT'000
Cash and due from banks (note 5)	1,090,245,012	444,813,254
Balances with BOM	(689,022,571)	(250,535,821)
Cash and cash equivalents	401,222,441	194,277,433

35 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 300,000 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. Operation is 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.

In 2013, the Bank changed its minimum level of SME range from USD 100,000 to USD 300,000. As a result, SME range from USD 100,000 to USD 300,000 moved to Retail banking segment for the year ended 31 December 2013. The necessary information for the restatement of previously reported segment reporting is not available and the cost to develop it would be excessive. Therefore, the Group does not restate the comparative segment reporting.

35 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2013	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	150,746,050	14,166,628	2,684,776	(60,291,014)	32,502,253	(19,062,281)	120,746,412
Net fee and commission income	5,809,919	126,820	14,262,019	11,803	138,082	1,177,163	21,525,806
Other operating income (expenses)	1,075	286	9,293,237	98,168	24,279,396	35,012,604	68,684,766
Intersegment revenue (expenses)	(81,709,447)	(4,556,591)	39,484,792	57,080,726	(41,064,059)	30,764,579	-
Total segment revenue (expenses)	74,847,597	9,737,143	65,724,824	(3,100,317)	15,855,672	47,892,065	210,956,984
Operating expenses	(537,341)	(292,759)	(17,188,443)	(1,102,219)	(2,959,797)	(22,396,792)	(44,477,351)
Share of profit of an associate	-	-	-	-	-	204,056	204,056
Reversal of (provision for) impairment losses	(5,021,024)	(521,969)	(3,468,590)	-	-	755,900	(8,255,683)
Profit (loss) before tax	69,289,232	8,922,415	45,067,791	(4,202,536)	12,895,875	26,455,229	158,428,006
Income tax expense							(19,164,321)
Net profit for the year							139,263,685
Segment assets	1,903,006,763	94,070,623	599,082,113	-	1,455,038,895	1,072,876,584	5,124,074,978
Segment liabilities	4,602,069	-	1,657,426,742	660,273,560	1,738,707,746	686,357,164	4,747,367,281
Unallocated liabilities	-	-	-	-	-	7,646,233	7,646,233
Total liabilities	4,602,069	-	1,657,426,742	660,273,560	1,738,707,746	694,003,397	4,755,013,514
Depreciation and amortisation	(16,500)	-	(1,914,829)	(4,816)	(9,216)	(2,222,702)	(4,168,063)
Capital expenditures	26,241	-	3,430,696	7,912	18,162	49,527,010	53,010,021

35 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 fee 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)
Reversal of (provision for) 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

36 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.
• *TDB Securities*	The Group's chairman wholly owned the TDB Securities.
• *Capitron Bank*	Certain key management of the Group is a shareholder of Capitron Bank.
• *Mongolia Mortgage Corporation LLC ("MIK")*	The Group holds approximately 35.6% equity interest in MIK as at 31 December 2013. (note 7)
• Mongolian General Leasing LLC and its subsidiary	The Group holds 55% equity interest in Mongolian General Leasing LLC as at 31 December 2013.

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 at and for the years ended 31 December 2013 and 2012 were as follows:

	2013 MNT'000	2012 MNT'000
UB City Bank and its subsidiary:		
For the year ended 31 December		
Interest income	7,840,065	4,038,709
Interest expense	(747,770)	(539,625)
Net fee and commission income	(33)	(62)
As at 31 December		
Deposits and placements with banks and other financial institutions	174,640,914	59,207,086
Deposits and placements by banks and other financial institutions	108,270,500	6,960,500
Loans and advances	9,924,600	7,934,497
Subordinated loans (note 9)	4,000,000	4,000,000
Accrued interest income	47,255	38,451
Accrued interest expense	33,208	381
Capitron Bank:		
For the year ended 31 December		
Interest income	383,960	384,641
Interest expense	(41,559)	(11,605)
As at 31 December		
Deposits and placements with banks and other financial institutions	6,000,000	458,958
Deposits and placements by banks and other financial institutions	2,100,707	-
Subordinated loans (note 9)	3,000,000	3,000,000
Accrued interest income	126,260	125,923
Accrued interest expense	38,221	-

36 Significant transactions and balances with related parties (continued)

	2013 MNT'000	2012 MNT'000
MIK:		
For the year ended 31 December		
Interest income	136,411	330,845
Interest expense	(107,952)	(281,996)
As at 31 December		
Investment securities (note 7)	108,475,200	1,697,000
Borrowings (note 18)	-	1,531,618
Accrued interest income	136,411	14,328
Accrued interest expense	-	13,237
TDB Securities:		
During the year ended 31 December		
Interest income	777,345	-
As at 31 December		
Loans and advances	8,270,500	-
Accrued interest income	85,002	-
TDB Leasing		
During the year ended 31 December		
Net fee and commission income	203,527	-
Interest expense	(96,560)	-
As at 31 December		
Other assets	153,445	-
Deposit placements by banks and other financial institutions	3,256,655	-
Mongolian General Leasing LLC		
As at 31 December		
Investment in associates and joint ventures	1,773,610	-
Executive officers:		
During the year ended 31 December		
Interest income	493,546	376,725
As at 31 December		
Loans and advances	6,508,359	5,117,586
Accrued interest income	24,647	22,827

The loans to executive officers are included in loans and advances of the Group. Interest rates charged on mortgage loans and other 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 2013 and 2012 amounted to MNT 3,735,260 thousand and MNT 4,011,647 thousand, respectively.

37 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2013 and 2012 are summarised as follows:

(In MNT'000)

As at 31 December 2013

	Trading	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	-	-	1,090,245,012	-	-	1,090,245,012
Investment securities	-	160,500,000	-	724,612,661	-	885,112,661
Loans and advances	-	-	2,530,557,178	-	-	2,530,557,178
Subordinated loans	-	-	7,000,000	-	-	7,000,000
Derivative assets	64,719,231	-	-	-	-	64,719,231
Spot trading receivables	-	-	276,359,629	-	-	276,359,629
Other assets(*)	-	-	50,595,083	-	-	50,595,083
	64,719,231	160,500,000	3,954,756,902	724,612,661	-	4,904,588,794
Financial liabilities						
Deposits from customers	-	-	-	-	2,139,692,149	2,139,692,149
Deposits and placements by banks and other financial institutions	-	-	-	-	172,109,699	172,109,699
Bills sold under repurchase agreements	-	-	-	-	372,650,503	372,650,503
Borrowings	-	-	-	-	1,157,090,928	1,157,090,928
Debt securities issued	-	-	-	-	460,563,148	460,563,148
Subordinated debt securities issued	-	-	-	-	66,036,156	66,036,156
Derivative liabilities	39,744,994	-	-	-	-	39,744,994
Spot trading payables	-	-	-	-	276,314,010	276,314,010
Other liabilities(**)	-	-	-	-	62,729,518	62,729,518
	39,744,994	-	-	-	4,707,186,111	4,746,931,105

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(**) Unearned income, derivative liabilities and spot payables were excluded.

37 Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2012

	Trading	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
Loans and advances	-	-	1,533,271,823	-	-	1,533,271,823
Subordinated loans	-	-	7,000,000	-	-	7,000,000
Derivative assets	283,676	-	-	-	-	283,676
Spot trading receivables	-	-	65,414,600			65,414,600
Other assets(*)	-	-	31,489,904	-	-	31,489,904
	283,676	361,628,276	2,081,989,581	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
Derivative liabilities	901,408	-	-	-	-	901,408
Spot trading payables	-	-	-	-	65,414,600	65,414,600
Other liabilities(**)	-	-	-	-	62,314,408	62,314,408
	901,408	-	-	-	2,457,088,687	2,457,990,095

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(**) Unearned income, derivative liabilities and spot payables were excluded.

37 Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2013 and 2012 are as follows:

(In MNT'000)

For the year ended 31 December 2013

	Interest income	Interest expenses	Fee and commission income	Other operating income	Reversal of (provision for) impairment loss	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	34,142,479	-	-	-	-	34,142,479	-
Loans and receivables	253,751,400	-	8,582,285	-	(4,639,927)	257,693,758	-
Available-for-sale financial assets	33,544,714	-	-	27,735,140	-	61,279,854	(11,654,040)
Derivatives and spot trading	-	-	-	32,274,066	-	32,274,066	-
Financial liabilities measured at amortised cost	-	(200,692,181)	-	98,168	-	(200,594,013)	-
	321,438,593	(200,692,181)	8,582,285	60,107,374	(4,639,927)	184,796,144	(11,654,040)

For the year ended 31 December 2012

	Interest income	Interest expenses	Fee 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
Derivatives and spot trading	-	-	-	12,842,912	-	12,842,912	-
Financial liabilities measured at amortised cost	-	(137,432,198)	-	106,117	-	(137,326,081)	-
	213,335,115	(137,432,198)	7,136,229	12,949,402	6,306,973	102,295,521	22,071,596

38 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks arising from 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.

38 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	
	2013	2012	2013	2012
Carrying amount	2,530,557,178	1,533,271,823	880,689,216	407,811,761
Neither pas due nor impaired	2,494,251,068	1,517,714,620	880,689,216	407,811,761
Individually impaired				
In arrears(*)	27,017,021	6,965,278	-	-
Non-qualitative loans:				
a) Substandard	11,290,442	6,043,916	-	-
b) Doubtful	4,344,216	8,814,505	-	-
c) Loss	11,696,436	7,225,344	-	-
Gross amount	2,548,599,183	1,546,763,663	-	-
Allowance	(18,042,005)	(13,491,840)	-	-
Net carrying amount	2,530,557,178	1,533,271,823	880,689,216	407,811,761
Letters of credit and guarantees	169,140,235	104,282,568	-	-
Loan and credit card commitments	120,997,443	129,732,116	-	-
	290,137,678	234,014,684	-	-

(*) 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.

38 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.

	2013 MNT'000			**2012 MNT'000**		
	Gross	Net	Fair value of collateral(*)	Gross	Net	Fair value of collateral(*)
In arrears	27,017,021	25,666,170	25,393,200	6,965,278	6,617,014	6,431,448
Substandard	11,290,442	8,467,832	8,339,007	6,043,916	4,532,937	4,317,769
Doubtful	4,344,216	2,172,108	1,926,762	8,814,505	4,407,253	4,215,497
Loss	11,696,436	-	-	7,225,344	-	-
	54,348,115	36,306,110	35,658,969	29,049,043	15,557,204	14,964,714

(*) 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, guarantee from the third party 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 2013 or 2012.

During 2013 and 2012, 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.

38 Financial risk management (continued)

(b) Credit risk (continued)

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

	2013 MNT'000	2012 MNT'000
Agriculture	19,464,926	25,367,698
Mining and quarrying	553,494,328	275,735,372
Manufacturing	235,469,970	197,947,100
Petrol import and trade	230,190,649	97,127,220
Trading	355,643,925	263,685,676
Construction	421,413,789	176,447,292
Electricity and thermal energy	32,822,484	2,285,873
Hotel, restaurant and tourism	53,545,296	36,808,497
Financial services	27,157,123	15,875,872
Transportation	34,556,821	28,085,303
Health	17,157,136	7,628,137
Education	1,936,912	2,924,449
Mortgage	293,338,638	213,475,650
Payment card	115,182,434	91,257,688
Saving collateralised	21,821,849	14,102,788
Others	117,360,898	84,517,208
Total	2,530,557,178	1,533,271,823

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 total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2013 are as follows:

Description	Suitable ratios	31 December 2013	Violation
The loan and guarantee given to one borrower	<Eq 20%	19.44%	None
The loan and guarantee given to the single related party	<Eq 5%	1.91%	None
Total loans and guarantees given to the related parties	<Eq 20%	3.48%	None

38 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 the Group maintained a liquidity ratio; calculated as a ratio of a the Group's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BOM and investment securities to the Group's liquid liabilities; including deposit from customers, deposits and placements from the banks and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

Details of the reported ratio at the reporting date were as follows:

	2013	**2012**
As at 31 December	42%	37%

38 Financial risk management (continued)

(c) Liquidity risk (continued)

(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
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.

38 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:

38 **Financial risk management (continued)**

(d) Market risks (continued)

As at 31 December 2013

(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		64,232,328	64,232,328	-	-	-	-	-
Deposits and placements with banks and other financial institutions	8.06%	336,990,113	156,352,445	180,637,668	-	-	-	-
Balances with BOM		689,022,571	689,022,571		-	-	-	-
Investment securities	9.88%	885,112,661	4,423,445	5,062,685	-	92,501,535	642,410,428	140,714,568
Loans and advances	11.99%	2,530,557,178	-	488,342,728	293,154,436	625,030,900	903,318,625	220,710,489
Subordinated loan	9.71%	7,000,000	-	-	-	3,000,000	4,000,000	-
Other assets(*)		391,673,943	391,673,943	-	-	-	-	-
		4,904,588,794	1,305,704,732	674,043,081	293,154,436	720,532,435	1,549,729,053	361,425,057
Financial liabilities								
Deposits from customers	5.96%	2,139,692,149	-	1,610,220,905	283,642,380	192,918,245	52,910,619	-
Deposits and placements with banks and other financial institutions	5.35%	172,109,699	14,377,341	121,391,781	19,849,200	16,491,377	-	-
Bills sold under repurchase agreements	12.50%	372,650,503	-	372,650,503	-	-	-	-
Borrowing	4.00%	1,157,090,928	-	183,754,594	329,991,463	276,869,563	357,164,525	9,310,783
Debt securities issued	8.59%	460,563,148	-	-	-	-	460,563,148	-
Subordinated debt securities issued	11.05%	66,036,156	-	-	-	-	66,036,156	-
Other liabilities(**)		378,788,522	378,788,522	-	-	-	-	-
		4,746,931,105	393,165,863	2,288,017,783	633,483,043	486,279,185	936,674,448	9,310,783
Net financial assets/(liabilities)		157,657,689	912,538,869	(1,613,974,702)	(340,328,607)	234,253,250	613,054,605	352,114,274

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

38 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
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 with banks and other financial institutions	5.75%	36,518,483	13,735,943	217,485	22,565,055	-	-	-
Bills sold under repurchase agreements	15.00%	1,495,638	-	1,495,638	-	-	-	-
Borrowing	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	142,366,359	995,090,357	248,278,000	435,632,196	607,159,046	29,464,137
Net financial assets/(liabilities)		81,084,772	384,364,950	(514,677,467)	(30,957,655)	59,939,112	46,279,094	136,136,738

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

38 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 statement of financial position) is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
Sensitivity of projected net interest income		
2013		
At 31 December	(15,663,699)	15,663,699
2012		
At 31 December	(4,547,065)	4,547,065

38 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)

	2013 MNT denominated	2013 Foreign currencies	2013 Total	2012 MNT denominated	2012 Foreign currencies	2012 Total
Financial assets						
Cash on hand	34,340,930	29,891,398	64,232,328	24,039,923	31,518,668	55,558,591
Deposits and placements with banks and other financial instruments	280,640,011	56,350,102	336,990,113	51,496,634	87,222,208	138,718,842
Balances and deposits with the BOM	444,306,076	244,716,495	689,022,571	108,686,678	141,849,143	250,535,821
Investment securities	848,377,307	36,735,354	885,112,661	440,141,403	16,660,207	456,801,610
Loan and advances	1,254,306,839	1,276,250,339	2,530,557,178	673,033,148	860,238,675	1,533,271,823
Subordinated loans	7,000,000	-	7,000,000	7,000,000	-	7,000,000
Other assets (*)	100,196,917	291,477,026	391,673,943	16,163,776	81,024,404	97,188,180
	2,969,168,080	1,935,420,714	4,904,588,794	1,320,561,562	1,218,513,305	2,539,074,867
Financial liabilities						
Deposits from customers	1,080,994,172	1,058,697,977	2,139,692,149	678,059,489	724,267,274	1,402,326,763
Deposits and placement by bank and other financial institutions	106,433,227	65,676,472	172,109,699	210,586	36,307,897	36,518,483
Bills sold under repurchase agreements	372,650,503	-	372,650,503	1,495,638	-	1,495,638
Borrowings	826,235,611	330,855,317	1,157,090,928	144,236,327	88,727,757	232,964,084
Debt securities issued	-	460,563,148	460,563,148	-	600,525,865	600,525,865
Subordinated debt	-	66,036,156	66,036,156	-	55,528,846	55,528,846
Other liabilities (**)	73,772,930	305,015,592	378,788,522	93,758,273	34,872,143	128,630,416
	2,460,086,443	2,286,844,662	4,746,931,105	917,760,313	1,540,229,782	2,457,990,095
Off-balance foreign currency exposure, net		(80,776,654)			201,888,906	
Net foreign currency exposure		(432,200,602)			(119,827,571)	

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

38 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks (continued)

A ten percent strengthening or weakening of the MNT against the USD at 31 December 2013 and 2012 would have increased (decreased) comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Ten percent Strengthening MNT'000	Ten percent Weakening MNT'000
2013		
At 31 December	(43,220,060)	43,220,060
2012		
At 31 December	(11,982,757)	11,982,757

38 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 14.0% and 13.0% at 31 December 2013 and 2012, respectively, complied on the basis of total capital and total assets as adjusted for their risk ("CAR") and a minimum of 9.0% and 8.0% at 31 December 2013 and 2012, 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 2013 and 2012, respectively, were as following:

	2013 MNT'000	2012 MNT'000
Tier 1 capital	326,723,688	189,450,452
Tier 2 capital	96,994,958	97,870,769
Total Tier 1 and Tier 2 capital	423,718,646	287,321,221
Risk weighted assets	2,810,912,604	1,899,910,898
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	15.07%	15.12%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	11.62%	9.97%

39 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

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

Level2: 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 amortised 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.

39 Fair values of financial assets and liabilities (continued)

(In MNT'000)		2013		2012	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash on hand	5	64,232,328	64,232,328	55,558,591	55,558,591
Deposits and placements with banks and other financial institutions	5	1,026,012,684	1,026,012,684	389,254,663	389,254,663
Investment securities	6	885,112,661	885,781,828	456,801,610	456,142,323
Loans and advances to customers	8	2,530,557,178	2,572,323,866	1,533,271,823	1,548,037,011
Subordinated loans	9	7,000,000	7,000,000	7,000,000	7,000,000
Other assets(*)	14	391,673,943	391,673,943	97,188,180	97,188,180
		4,904,588,794	4,947,024,649	2,539,074,867	2,553,180,768
Financial liabilities					
Deposits from customers	15	2,139,692,149	2,138,322,635	1,402,326,763	1,401,431,673
Deposits and placements by banks and other financial institutions	16	172,109,699	172,109,699	36,518,483	36,518,483
Bills sold under repurchase agreements	17	372,650,503	372,650,503	1,495,638	1,495,638
Borrowings	18	1,157,090,928	1,157,090,928	232,964,084	233,125,688
Debt securities issued	19	460,563,148	442,744,436	600,525,865	600,922,520
Subordinated debt securities issued	20	66,036,156	63,779,330	55,528,846	55,340,397
Other liabilities(**)	21	378,788,522	378,788,522	128,630,416	128,630,416
		4,746,931,105	4,725,486,053	2,457,990,095	2,457,464,815

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

39 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are measured at fair value in the consolidated statement of financial position as at 31 December 2013 and 2012 are as follows:

(In MNT'000)

	2013(**)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities (AFS)(*)	3,980,015	720,189,216	-	724,169,231
Derivative assets	-	64,719,231	-	64,719,231
	3,980,015	784,908,447	-	788,888,462
Derivative liabilities	-	39,744,994	-	39,744,994
	-	39,744,994	-	39,744,994

(*) As at 31 December 2013, unquoted equity securities at cost amounting to MNT 443,430 are excluded.
(**) There was no transfer between level 1 and level 2 for years ended December 31 2013.

The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.

(In MNT'000)

	2012(**)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities (AFS)(*)	2,264,827	46,183,486	45,197,917	93,646,230
Derivative assets	-	283,676	-	283,676
	2,264,827	46,467,162	45,197,917	93,929,906
Derivative liabilities	-	901,408	-	901,408
	-	901,408	-	901,408

(*) As at 31 December 2012, unquoted equity securities at cost amounting to MNT 1,527,104 are excluded. In addition, the Group sold the MRC shares which have been classified as fair value level 3 during current fiscal year.
(**) There was no transfer between level 1 and level 2 for years ended December 31 2012.

The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.

The fair value of level 3 financial instruments were measured based on the recent transaction price.

39 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as at 31 December 2013 is as follows:

(In MNT'000)

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash on hand	64,232,328	-	-	64,232,328
Deposits and placements with banks and other financial institutions	-	-	1,026,012,684	1,026,012,684
Investment securities(HTM)	-	161,169,167	-	161,169,167
Loans and advances	-	-	2,572,323,866	2,572,323,866
Subordinated loans	-	-	7,000,000	7,000,000
Spot receivables	276,359,629	-	-	276,359,629
Other assets(*)	-	-	50,595,083	50,595,083
	340,591,957	161,169,167	3,655,931,633	4,157,692,757
Deposits from customers	-	-	2,138,322,635	2,138,322,635
Deposits and placements by banks and other financial institutions	-	-	172,109,699	172,109,699
Bills sold under repurchase agreements	-	-	372,650,503	372,650,503
Borrowings	-	-	1,157,090,928	1,157,090,928
Debt securities issued	-	442,744,436	-	442,744,436
Subordinated debt securities issued	-	47,502,324	16,277,006	63,779,330
Spot payables	276,314,010	-	-	276,314,010
Other liabilities(**)	-	-	62,729,518	62,729,518
	276,314,010	490,246,760	3,919,180,289	4,685,741,059

(*) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(**) Unearned income, derivative liabilities and spot payables were excluded.

40 Offsetting financial assets and liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as at 31 December 2013 and 2012 are as follows:

(In MNT'000)

	2013					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Receivable spot exchange(*)	57,628,380	-	57,628,380	57,578,805	-	49,575
	57,628,380	-	57,628,380	57,578,805	-	49,575
Financial liabilities						
Derivative liabilities(*)	203,517	-	203,517	57,578,805	-	205,376
Payable spot exchange(*)	57,580,664	-	57,580,664			
Bills sold under repurchase agreements(**)	372,650,503	-	372,650,503	372,650,503	-	-
	430,434,684	-	430,434,684	430,229,308	-	205,376

(*) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(**) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

40 Offsetting financial assets and liabilities (continued)

(In MNT'000)

	2012					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Receivable spot exchange(*)	63,339,904	-	63,339,904	63,255,695	-	84,209
	63,339,904	-	63,339,904	63,255,695	-	84,209
Financial liabilities						
Payable spot exchange(*)	63,255,695	-	63,255,695	63,255,695	-	-
Bills sold under repurchase agreements(**)	1,495,638	-	1,495,638	1,495,638	-	-
	64,751,333	-	64,751,333	64,751,333	-	-

(*) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(**) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

41 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 exposure to credit risk would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December	2013 MNT'000	2012 MNT'000
Letters of credit and guarantees	169,140,235	104,282,568
Loan and credit card commitments	120,997,443	129,732,116

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

The 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 0.3% 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 paid MNT 1,000,000 thousand commission to the Deposit Insurance Corporation for the year ended 31 December 2013 and recognised accrued expense amounting to MNT 3,002,822 thousand at 31 December 2013.

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 ongoing in the court. If the Group was required to pay the commission for the years from 2010 to 2012, it would materially affect the Group's performance.

42 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as at 31 December, 2013 are as follows:

Type	Nature and purpose	Financing	Total Assets
Securitisation vehicles for loans and advances	To generate: ▪ funding for the Group's lending activities. ▪ fees for loan servicing. These vehicles are financed through the issue of notes to investors.	Issue of RMBS notes	323,719,543

Exposure to risk relating to interests in unconsolidated structured entities as at 31 December, 2013 are as follows:

	Securitisation vehicles for loans and advances
Asset:	
Investment securities	108,475,200

TDB
TRADE & DEVELOPMENT BANK

TDB has a widest range of gateways to the international market

150 Financial Institutions

International relationships

SWIFT | MoneyGram. money transfer | Pay Easy

Most advanced international remittance services in the market **50%**

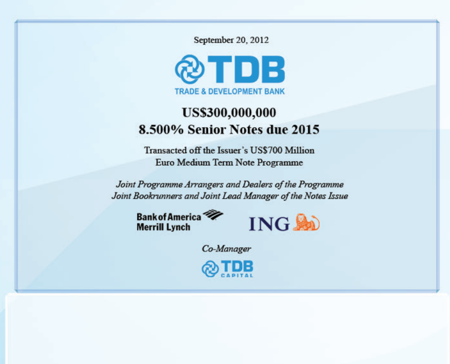
Biggest financier of Trade in Mongolia

USD 426 million — TDB's trade finance lines from **40** international banks

USD 82 million — First ever syndicated loan facilities agreement in Mongolia, signed in 2013

52% — TDB's market share on Mongolia's total trade finance related transactions

"Best Trade Finance Bank in Mongolia"
TDB has been awarded by the world's leading trade finance magazine "**GTR**" for the last three consecutive years.



September 20, 2012
TDB
TRADE & DEVELOPMENT BANK
US$300,000,000
8.500% Senior Notes due 2015
Transacted off the Issuer's US$700 Million Euro Medium Term Note Programme
Joint Programme Arrangers and Dealers of the Programme
Joint Bookrunners and Joint Lead Manager of the Notes Issue
Bank of America Merrill Lynch
ING
Co-Manager
TDB CAPITAL

First and only repeat bond issuer bank in Mongolia

- > USD 75 million senior unsecured notes in 2007
- > USD 150 million senior unsecured notes and USD 25 million subordinated notes in 2010
- > USD 300 million senior unsecured notes in September 2012
- > RMB 700 million senior unsecured notes in January 2014

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