GOLOMT BANK

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

31 December 2017

CONTENTS

GOLOMT BANK LLC AND ITS SUBSIDIARY

Corporate Information

Incorporation decision

Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995.

Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011. The subsidiary was renamed as Golomt Capital in 2017.

Certificate and License

The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005.
The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.

The Subsidiary holds the State Registration Certificate No. 9011287134 with registration No.5481589 newly granted to the Subsidiary by the State Registration Office of Mongolia on 02 November 2011.

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

Board of Governors

Ch.Munkhtsetseg	*Chairwoman*
Z.Temuun	*Member*
Urs E. Schwarzenbach	*Member*
D.Munkhtur	*Member*
J.Unenbat	*Independent Member*
López Abelló	*Independent Member*

Executive Officers

U.Ganzorig	*Chief Executive Officer*
G.Ganbold	*President*
Tomas Bravenec	*Deputy CEO*
T.Nyamsuren	*Deputy CEO*
N.Tserendavaa	*Deputy CEO*
J.Selenge	*Deputy CEO*
M.Chimegmunkh	*Director of Financial Management Division*
B.Enkhtuya	*Director of Business Development Division*
A.Enkhbayar	*Director of Risk Management Division*
B.Bayartbileg	*Director of Credit Division*
Yo.Purevbat	*Director of Operations Division*
U.Khosjargal	*Director of Channel Management Division*
D.Badral	*Director of Corporate Banking Division*
M.Sainbileg	*Director of Information Technology Division*
A.Odonbaatar	*Director of Audit Division*
B.Zolboo	*Director of Treasury Division*

Registered office

Head Office of Golomt bank
Sukhbaatar Square 5,
P.O.Box 22
Ulaanbaatar 15160, Mongolia

Auditors

PwC Audit LLC
Central Tower, Floor 6, Suite 601
Sukhbaatar Square, SDB-8
Ulaanbaatar 14200, Mongolia

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Independent Auditor's Report

To the Shareholders and Board of Directors of Golomt Bank LLC

Our opinion

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated financial position of the Golomt Bank LLC (the "Bank") and its subsidiary Golomt Capital LLC (together - the "Group") and separate financial position of the Bank as at 31 December 2017, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements and the Bank's separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter

We draw attention to Note 39 to these financial statements, which refers to Diagnostic studies of commercial banks in Mongolia, including Asset Quality Review of Mongolian banking sector ("AQR"), commissioned by the Bank of Mongolia ("BOM") in 2017. As at the date of approval of these financial statements, the AQR process was not declared as completed by BOM and the full implications of the assessment on the Mongolian financial sector and for the Bank specifically are yet unclear and cannot be estimated. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

PricewaterhouseCoopers Audit LLC, Central Tower Office Building
Suite 601, Floor 6, Sukhbaatar Square, SBD-8, Ulaanbaatar 14200, Mongolia
T: +976 70009089, F:+976 (11)322068, www.pwc.com/mn

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Matthew Pottle
Partner
PricewaterhouseCoopers Audit LLC

Ulaanbaatar, Mongolia
30 March 2018

In thousands of Mongolian Tugriks	Note	Group 31 December 2017	Group 31 December 2016	Bank 31 December 2017	Bank 31 December 2016
Assets					
Cash and balances with central bank (other than mandatory reserve)	7	222,779,111	317,585,827	222,351,578	316,801,192
Mandatory cash balances with the Bank of Mongolia	8	395,029,289	315,633,095	395,029,289	315,633,095
Financial assets at fair value through profit or loss	9	250,270,731	395,641,113	249,076,344	395,422,594
Reverse sale and repurchase agreement	10	-	9,995,766	-	9,995,766
Due from other banks	11	592,304,403	792,154,555	592,304,403	792,154,555
Loans and advances to customers	12	2,318,058,202	2,034,859,755	2,318,058,202	2,034,859,755
Short-term investment securities	13	632,003,148	41,979,911	632,003,148	41,979,911
Investment securities available for sale	14	218,616,988	126,165,928	218,616,988	126,165,928
Investment securities held to maturity	15	145,539,393	121,553,766	144,822,457	120,274,349
Investment properties	16	57,505,587	51,291,334	57,505,587	51,291,334
Investment in subsidiary	17	-	-	1,200,000	1,200,000
Derivative financial instruments	40	75,466,402	177,021,621	75,466,402	177,021,621
Other assets	18	43,861,887	28,381,165	44,330,748	28,333,835
Intangible assets	19	13,616,834	13,948,312	13,616,825	13,946,737
Premises and equipment	20	140,594,973	171,022,155	140,555,122	171,008,642
Repossessed collateral	21	47,090,786	44,809,609	47,090,786	44,809,609
Non-current assets classified as held for sale	22	52,556,417	17,444,424	52,556,417	17,444,424
Total assets		**5,205,294,151**	**4,659,488,336**	**5,204,584,296**	**4,658,343,347**
Liabilities					
Due to other banks	23	388,192,233	121,902,017	388,192,233	121,902,017
Customer accounts	24	3,454,091,632	2,803,875,469	3,453,919,747	2,803,327,560
Other borrowed funds	25	757,897,323	1,195,869,997	757,897,323	1,195,869,997
REPO arrangements	26	47,343,007	37,408,551	47,343,007	37,408,551
Current income tax liability	34	6,035,111	-	6,035,111	-
Deferred tax liability	34	9,549,724	10,678,082	9,551,071	10,679,318
Provision for credit related commitments	39	673,275	793,072	673,275	793,072
Other liabilities	27	52,394,296	34,093,768	52,240,676	34,055,598
Subordinated debt	28	97,042,814	87,733,803	97,042,814	87,733,803
Total liabilities		**4,813,219,415**	**4,292,354,759**	**4,812,895,257**	**4,291,769,916**
Equity					
Preferred shares	29	25,778,900	25,778,900	25,778,900	25,778,900
Share capital	29	26,367,593	26,367,593	26,367,593	26,367,593
Share premium		46,583,557	46,583,557	46,583,557	46,583,557
Retained earnings		218,919,388	240,998,876	218,533,691	240,438,730
Other reserves		74,425,298	27,404,651	74,425,298	27,404,651
Total equity		**392,074,736**	**367,133,577**	**391,689,039**	**366,573,431**
Total liabilities and equity		**5,205,294,151**	**4,659,488,336**	**5,204,584,296**	**4,658,343,347**

Approved for issue and signed on behalf of the Bank's management on 30 March 2018.

CH. MUNKHTSETSEG
Chairwoman, Board of Governors

U. GANZORIG
Chief Executive Officer

M. CHIMEGMUNKH
Chief Financial Officer

The notes set out on pages 8 to 112 form an integral part of these financial statements.

		Group		Bank	
In thousands of Mongolian Tugriks	Note	2017	2016	2017	2016
Interest income	30	409,493,040	332,107,188	409,219,855	331,899,510
Interest expense	30	(287,227,650)	(246,411,088)	(287,229,507)	(246,415,535)
Net interest income		**122,265,390**	**85,696,100**	**121,990,348**	**85,483,975**
Provision for loan impairment	12	(33,411,559)	(51,903,798)	(33,411,559)	(51,903,798)
Net interest income after provision for loan impairment		**88,853,831**	**33,792,302**	**88,578,789**	**33,580,177**
Fee and commission income	31	36,693,542	28,441,027	35,650,124	27,982,366
Fee and commission expense	31	(10,174,186)	(7,699,015)	(9,808,785)	(7,608,826)
Gains less losses from financial assets at fair value through profit or loss	9	3,381,623	966,643	3,370,866	960,857
Gains less losses from financial derivatives	40	(65,296,303)	136,753,014	(65,296,303)	136,753,014
Gains less losses from trading in foreign currencies and precious metals		16,979,721	15,124,620	16,979,721	15,124,620
Gains less losses from disposals of investment securities available for sale		1,877,287	-	1,877,287	-
Foreign exchange translation gains less losses		21,027,625	(111,669,509)	21,033,400	(111,710,252)
Provision charge for other assets	18	(167,175)	(3,646,340)	(167,175)	(3,644,340)
Impairment charge for buildings		(20,157,623)	-	(20,157,623)	-
Provision charge for repossessed collateral	21	286,172	(2,345,199)	286,172	(2,345,199)
Provision charge for guarantee and LC		119,797	(793,072)	119,797	(793,072)
Provision for non-current asset held for sale		(3,774,036)	-	(3,774,036)	-
Dividend received		2,729,968	306,444	3,290,112	306,444
Other operating income	32	1,531,384	1,397,036	1,518,163	1,391,723
Administrative and other operating expenses	33	(86,150,129)	(77,568,743)	(85,583,444)	(77,251,293)
(Loss)/Profit before tax		**(12,238,502)**	**13,059,208**	**(12,082,935)**	**12,746,219**
Income tax expense/(credit)	34	6,911,199	(7,471,460)	6,930,081	(7,472,658)
(Loss)/Profit for the year		**(5,327,303)**	**5,587,748**	**(5,152,854)**	**5,273,561**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
- Gains less losses arising during the year		47,347,785	534,662	47,347,785	534,662
Income tax recorded directly in other comprehensive income		(11,836,946)	(295,339)	(11,836,946)	(295,339)
Items that will not be reclassified to profit or loss			-		
Revaluation of premises and equipment		(5,242,377)	2,738,497	(5,242,377)	2,738,497
Other comprehensive income	**35**	**30,268,462**	**2,977,820**	**30,268,462**	**2,977,820**
Total comprehensive income for the year		**24,941,159**	**8,565,568**	**25,115,608**	**8,251,381**

The notes set out on pages 8 to 112 form an integral part of these financial statements.

		Attributable to owners of the Group							
In thousands of Mongolian Tugriks	**Note**	**Preferred shares**	**Share capital**	**Share premium**	**Revaluation reserve for AFS securities**	**Revaluation reserve for premises**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**4,581,064**	**7,476,100**	**-**	**247,780,795**	**358,568,009**
Profit for the year		-	-	-	-	-	-	5,587,748	**5,587,748**
Other comprehensive income	35	-	-	-	239,323	2,738,497	-	-	**2,977,820**
Total comprehensive income for 2016		**-**	**-**	**-**	**239,323**	**2,738,497**	**-**	**5,587,748**	**8,565,568**
Transfer of revaluation surplus on premises	36	-	-	-	-	(569,729)	-	569,729	-
Transfer to regulatory reserve (Note 12)		-	-	-	-	-	12,581,184	(12,581,184)	-
Transfer to other reserves	4.27	-	-	-	-	-	358,212	(358,212)	-
Balance at 31 December 2016		**25,778,900**	**26,367,593**	**46,583,557**	**4,820,387**	**9,644,868**	**12,939,396**	**240,998,876**	**367,133,577**
Loss for the year		-	-	-	-	-	-	(5,327,303)	**(5,327,303)**
Other comprehensive income		-	-	-	35,510,839	(5,242,377)	-	-	**30,268,462**
Total comprehensive income for 2017		**-**	**-**	**-**	**35,510,839**	**(5,242,377)**	**-**	**(5,327,303)**	**24,941,159**
Transfer of revaluation surplus on premises		-	-	-	-	(440,582)	-	440,582	-
Transfer to regulatory reserve (Notes 12 and 21)		-	-	-	-	-	17,192,767	(17,192,767)	-
Balance at 31 December 2017		**25,778,900**	**26,367,593**	**46,583,557**	**40,331,226**	**3,961,909**	**30,132,163**	**218,919,388**	**392,074,736**

The notes set out on pages 8 to 112 form an integral part of these financial statements.

Golomt Bank
Consolidated Statement of Changes in Equity

In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
		Attributable to owners of the Bank							
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**4,581,064**	**7,476,100**	**-**	**247,534,836**	**358,322,050**
Profit for the year		-	-	-	-	-	-	5,273,561	**5,273,561**
Other comprehensive income	35	-	-	-	239,323	2,738,497	-	-	**2,977,820**
Total comprehensive income for 2016		**-**	**-**	**-**	**239,323**	**2,738,497**	**-**	**5,273,561**	**8,251,381**
Transfer of revaluation surplus on premises		-	-	-	-	(569,729)	-	569,729	-
Transfer to regulatory reserve (Note 12)		-	-	-	-	-	12,581,184	(12,581,184)	-
Transfer to other reserves	4.27	-	-	-	-	-	358,212	(358,212)	-
Balance at 31 December 2016		**25,778,900**	**26,367,593**	**46,583,557**	**4,820,387**	**9,644,868**	**12,939,396**	**240,438,730**	**366,573,431**
Loss for the year		-	-	-	-	-	-	(5,152,854)	**(5,152,854)**
Other comprehensive income		-	-	-	35,510,839	(5,242,377)	-	-	**30,268,462**
Total comprehensive income for 2017		**-**	**-**	**-**	**35,510,839**	**(5,242,377)**	**-**	**(5,152,854)**	**25,115,608**
Transfer of revaluation surplus on premisis		-	-	-	-	(440,582)	-	440,582	**-**
Transfer to regulatory reserve (Notes 12 and 21)		-	-	-	-	-	17,192,767	(17,192,767)	**-**
Balance at 31 December 2017		**25,778,900**	**26,367,593**	**46,583,557**	**40,331,226**	**3,961,909**	**30,132,163**	**218,533,691**	**391,689,039**

The notes set out on pages 8 to 112 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**Group 2017**	**Group 2016**	**Bank 2017**	**Bank 2016**
Cash flows from operating activities					
Profit/(loss) before tax		**(12,238,502)**	**13,059,208**	**(12,082,935)**	**12,746,219**
Adjustments to:					
Impairment provision for loans and advances to customers	12	33,411,559	51,903,798	33,411,559	51,903,798
Gains less losses from financial assets at fair value through profit or loss		(3,370,868)	(963,187)	(3,370,866)	(960,857)
Gains less losses from financial derivatives		65,296,303	(136,753,014)	65,296,303	(136,753,014)
Gains less losses from disposals of investment securities available for sale	9, 40	(1,877,287)	-	(1,877,287)	-
Gain on disposal of properties		(12,751)	-	(12,751)	-
Foreign exchange (gains)/losses		(21,027,625)	111,667,665	(21,033,400)	111,710,252
Provision for other assets	18	167,175	3,646,340	167,175	3,644,340
Impairment charge for buildings		20,157,623		20,157,623	
Provision for guarantee and LC		(119,797)	793,072	(119,797)	793,072
Provision for non-current asset held for sale		3,774,036		3,774,036	-
Depreciation expense	20	8,774,386	9,665,371	8,762,817	9,661,969
Amortisation expense	19	1,621,165	2,849,105	1,619,599	2,845,311
Property and equipment written off	20	58,103	(244,481)	58,703	(244,481)
Impairment provision for repossessed collateral	21	(286,172)	2,345,199	(286,172)	2,345,200
Non cash dividend received		(2,763,321)	-	(2,763,321)	-
Interest income	30	(409,493,040)	(332,111,635)	(409,219,855)	(331,899,510)
Interest expense	30	287,229,507	246,415,535	287,229,507	246,415,535
Cash flows used in operating activities before changes in operating assets and liabilities		**(30,699,506)**	**(27,727,024)**	**(30,289,062)**	**(27,792,167)**
(Increase) / decrease in mandatory cash balances with the Bank of Mongolia		(79,396,194)	(54,893,683)	(79,396,194)	(54,893,683)
(Increase) / decrease in due from other banks		181,338,414	59,837,125	181,338,414	59,837,126
(Increase) / decrease in trading securities		44,728,636	(251,409,930)	44,728,636	(251,409,930)
(Increase) / decrease in loans and advances		(503,031,996)	(32,946,006)	(503,031,996)	(32,946,006)
(Increase) / decrease in other assets		(15,480,724)	(6,671,097)	(15,748,710)	(6,524,386)
(Increase) / decrease in repossessed collateral		(6,335,430)	(67,526,708)	(6,335,430)	(67,526,708)
(Increase) / decrease in Non-Current Assets Classified as Held for Sale		15,853,154	-	15,853,154	-
Increase/(decrease) in due to banks		263,016,245	21,570,424	263,016,245	21,570,424
Increase/(decrease) in customer account		633,843,485	471,832,917	634,219,508	471,259,423
Increase/(decrease) in other liabilities		18,282,675	18,644,376	18,185,078	18,664,628
Net cash provided from/(used in) operating activities before tax and interest		**522,118,759**	**130,710,394**	**522,539,643**	**130,238,722**
Tax paid		6,904,038	(2,014,343)	6,930,081	(2,014,312)
Interest received		421,305,911	265,927,495	421,086,080	265,715,369
Interest paid		(267,399,930)	(243,138,932)	(267,399,930)	(243,138,932)
Net cash provided from/(used in) operating activities		**682,928,778**	**151,484,614**	**683,155,874**	**150,800,847**

The notes set out on pages 8 to 112 form an integral part of these financial statements.

		Group		Bank	
In thousands of Mongolian Tugriks	**Note**	**2017**	**2016**	**2017**	**2016**
Cash flows from investing activities					
Acquisition of Investment securities available for sale		(661,083)	(82,206)	(661,083)	(82,206)
Proceeds from disposal of Investment securities available for sale		4,838,732	8,715	4,838,732	8,715
Acquisition of Investment securities held to maturity		(13,611,100)	-	(13,611,100)	-
Proceeds from redemption of Investment securities held to maturity		3,880,810	59,488,900	3,880,810	59,488,900
Acquisition of premises and equipment		(17,018,106)	(5,093,775)	(16,980,199)	(5,091,827)
Proceeds from disposal of premises and equipment	20	5,423,729	3,453,211	5,423,729	3,453,211
Acquisition of intangible asset	19	(1,289,688)	(2,056,837)	(1,289,688)	(2,056,049)
Net cash used in investing activities		**(18,436,706)**	**55,718,008**	**(18,398,799)**	**55,720,744**
Cash flows from financing activities					
Proceeds from repo arrangements		793,407,576	610,385,555	793,407,576	610,385,555
Repayment of repo arrangements		(783,473,121)	(747,335,984)	(783,473,121)	(747,335,984)
Proceeds from drawdown of other borrowed funds	36	40,649,559	268,144,839	40,649,559	268,144,839
Repayment of other borrowed funds	36	(395,493,939)	(156,480,679)	(395,493,939)	(156,480,679)
Proceeds from subordinated loans	28	12,000,000	-	12,000,000	-
Repayment of subordinated loans	36	(848,467)	-	(848,467)	-
Net cash (used in) / provided from financing activities		**(333,758,392)**	**(25,286,269)**	**(333,758,392)**	**(25,286,269)**
Effect of exchange rate changes on cash and cash equivalents		4,602,426	(108,758,256)	4,694,525	(108,800,631)
Net increase/(decrease) in cash and cash equivalent		**335,336,106**	**73,154,324**	**335,693,208**	**72,434,691**
Cash and cash equivalents at the beginning of the period		805,403,936	732,249,612	804,619,301	732,184,610
Cash and cash equivalents at the end of the period	**7**	**1,140,740,043**	**805,403,936**	**1,140,312,509**	**804,619,301**

Refer to Notes 3 and 15 for information on the MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

Non cash transfers from Loans and advances to Repossessed collaterals, from Repossessed collaterals to Non-current asset held for sale and investment properties were excluded from the Statement of Cash Flows. Refer to Note 4.32, Note 21, Note 22 and Note 16.

The notes set out on pages 8 to 112 form an integral part of these financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2017 for Golomt Bank (“the Bank”) and its subsidiary Golomt Capital LLC (“the Group”).

As of 31 December 2017 the Bank’s immediate and ultimate parent company is Golomt Financial Group LLC (31 December 2016: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with Mongolian regulations based on the decision of Bodi International LLC (former parent of the Bank) in accordance with the legislation of Mongolia. During 2014 Bodi International LLC, the former immediate and ultimate parent of the Bank, has restructured its investment holdings and transferred all shares of the Bank to Golomt Financial Group LLC, a new company registered in Mongolia.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2017, represents the ultimate controlling party of the Bank as of 31 December 2017 and 31 December 2016.

The Bank’s shareholders as of 31 December 2017 and 31 December 2016 are disclosed in Note 29.

The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 granted by the State Registration Office of Mongolia on 5 December 2005. The Bank holds a full banking license No. 25 dated 6 March 1995 issued by the Bank of Mongolia (“the BOM”), Central bank of Mongolia.

In accordance with the effective Charter of the Bank, the Bank’s principal activities include:

- Savings;
- Loan services;
- Card services;
- Guarantees and letters of credit;
- Money transfer;
- Sales, purchase, deposit and trading of foreign currencies;
- Sales, purchase, deposit and trading of precious metals;
- Foreign settlement;
- Issuance and trading of securities;
- Financial leasing service;
- Purchase and sales of loans and other financial instruments;
- Custodian banking;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia and other government institutions.

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

As at 31 December 2017 the Bank had 70 branches within Mongolia (31 December 2016: 68 branches). Also, as at 31 December 2017 the Bank had 21 sub-branches (31 December 2016: 20 sub-branches).

The number of Bank employees as at 31 December 2017 was 1,901 (31 December 2016: 1,769).

The Bank’s registered office and principal place of business is: Sukhbaatar Square 5, P.O.Box 22, Ulaanbaatar 15160, Mongolia.

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

The Subsidiary obtained State Registration Certificate No. 9011287134 with registration No.5481589 issued by the State Registration Office of Mongolia on 2 November 2011.

1 Introduction (continued)

The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 2 November 2011 issued by the Financial Regulatory Commission of Mongolia.

The principal activities of the Subsidiary include:
- Brokerage service;
- Financial and investment services;
- Underwriting service.

2 Operating Environment of the Group

2.1 General

A mineral-rich and landlocked economy which displays certain characteristics of an emerging market, including market and economic volatility as well as relatively high interest rates. For many of the international investors Mongolia is considered a less developed country with huge growth potential. The Mongolian economy depends strongly on a few mining projects such as Oyu Tolgoi ("OT") and Tavantolgoi. After recording steady growth in 2010 and 2011, the Mongolian economy has shown signs of a slowdown since 2012 due to declining global commodities prices, concerns over slowing growth in China and an unstable legal environment for foreign investment.

During 2016, the Mongolian economy continued to be negatively impacted by low FDI inflows, currency depreciation, high external debt and political uncertainty, all of which contributed to a decline in gross domestic product in third quarter. This drop was highly associated with the construction and trade sectors. From an expenditure perspective, the decline was in private consumption and gross fixed capital formation. Mongolia's credit rating was downgraded to B3 in August 2016 and further downgraded to Caa1 in November by Moody's, followed by Fitch. However, in the fourth quarter of 2016 coal price surged as Chinese policy changed and it affected the whole economy as GDP growth started to become positive again.

In the second quarter of 2017, "Extended Fund Facility" was approved by International Monetary Fund (IMF). The whole IMF package (which includes support from Asian Development Bank (ADB), World Bank, Japan, Korea and China) amounts to 5.5 billion USD for 3 years. The balance of payment has been negative since 2012 due to insufficient foreign currency inflows, and the national currency depreciated heavily against US dollar until December 2016. Because of increased capital inflows in 2017 such as IMF package, the balance of payment started to become positive. In 2017, the Mongolian government successfully refinanced its USD bonds and foreign currency rate was relatively stable. The FDI doubled from the last year in 2017. Moreover, the trade balance improved due to global commodity prices' surge. As a result, the budget deficit was the lowest since 2015.

The latest economic growth figure was 5.8% year on year in the third quarter of 2017. Furthermore, the copper price growth and coal price stabilization would help positive GDP growth. Also, the capital inflow caused by IMF package positively impacted the economy. The Central Bank (the Bank of Mongolia) indicated to have expansionary monetary policy.

But there are still certain risks associated with Mongolian economy. The foreign debt equals to 234% of the GDP. According to various researches, foreign debt over 40% of the GDP could be harmful for the economy. Other possible risks are a variety of potential external conditions including Chinese economic slowdown and the decline of major export commodity prices.

The financial market continues to be concentrated and characterised by a few banks. The difficult operating environment has had a significant impact on banks with NPL ratios rising in 2016. In 2017, the central bank decreased its policy rate twice in order to support the economy. Therefore, both deposit interest rate and lending interest rate decreased as well.

2 Operating Environment of the Group (continued)

2.1 General (continued)

As disclosed in Note 39, as part of IMF program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review (AQR). Information on the current status of AQR and its implications on the Mongolian banking sector and the Bank are disclosed in Note 39.

The legal, tax and regulatory frameworks continue to develop and frequent changes are being made.

In particular, the tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes (refer to Note 39). The future economic performance of Mongolia is tied to the continuing demand from China and prices for commodities and is also dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal regulatory and political developments.

In accordance with IFRS, the Bank's management has determined loan impairment provisions using the "incurred loss" model. Recognition of impairment losses that arose from past events is required and the recognition of impairment losses that could arise from future events is prohibited. These future events include for example future changes in the economic environment. Impairment losses that could arise from future events cannot be recognized, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

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

2.2 Currency transactions

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

Date	USD	EUR
31 December 2017	2427.13	2897.87
31 December 2016	2489.53	2605.79
31 December 2015	1,995.98	2,182.70
31 December 2014	1,885.60	2,293.36
31 December 2013	1,654.10	2,275.63

3 Basis of Presentation

3.1 General principles

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

The Group and the Bank maintain its accounting records in accordance with the applicable legislation of Mongolia. The Group's consolidated financial statements and the Bank's separate financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out in Note 4.

3 Basis of Preparation (continued)

3.2 Functional and presentation currency

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

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

3.3 Critical accounting estimates and judgments in applying accounting policies

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

(i) Impairment losses on loans and advances

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

A 20% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MNT 19,106,550 thousand (2016: MNT 18,143,242 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

(ii) Revaluation of premises and investment properties

Premises of the Group are stated at fair value. Due to the nature of the premises and lack of comparable market data, the fair value of the premises is estimated based on the income method and the valuation was based principally on discounted cash flows based on reliable estimates of future cash flows from the expected market rental income streams from similar properties. The method considers net income generated by comparable property. The Group's weighted average cost of capital (WACC) is used for discounting of cash flows to determine the value for property which is subject to the valuation.

3 Basis of Preparation (continued)

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

The principal assumptions underlying the estimation of the fair value are those relating to: the possible market rentals and appropriate discount rates (WACC). The impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

- WACC was assumed to be approximately 12% p.a. Should this discount rate increase / decrease by 1 percentage point (i.e. to 13% p.a. and 11% p.a. respectively), the carrying value of the premises would be MNT 11.9 billion lower (MNT 13.5 billion higher).

- Should possible property rental income increase / decrease by 10 percent, the carrying value of the premises would be MNT 11.7 billion higher / MNT 11.7 billion lower.

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

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

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 366,512,751 thousand as at 31 December 2017 (31 December 2016: MNT 595,840,669 thousand) and are disclosed in Note 25.

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

During 2017, the Bank participated in four tranches of MIK securitisation transaction. The Bank sold the 8% mortgage loans to MIK SPC10, MIK SPC11, MIK SPC12 and MIK SPC13, special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 4.5% and Junior RMBS notes bearing interest at 10.5%. The loans have been purchased by abovementioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e. MIK. On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 4% funding received from the Bank of Mongolia for financing the original 8% mortgage lending.

3 Basis of Preparation (continued)

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

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

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

(v) Investment in Investment Fund

As disclosed in Note 14, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2017 the Bank owns 10% of investment units of this Fund, while 90% of investment units have not been yet sold as of the date of approval of these financial statements. Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements. In making this judgment, management has considered the following:

- the Fund is managed by managing company which is not related to the Bank's owners or management, and the Bank has no right or ability to replace the managing company as of 31 December 2017;
- the managing company of the Fund is actively seeking additional investors for remaining 90% units in present, and if additional investors are not found, it is unlikely that the Fund would continue operating;
- further, by the contract and the law, Golomt Bank and other investors are prohibited to influence the decision and operation of management company's investment fund and influence its independence;
- maximum loss that Golomt Bank can make is to lose its own invested money, but there are no guarantees or obligations to cover losses of other investors. In terms of returns, they are related to Golomt Bank's own purchased investment units i.e the Bank is not entitled to any rewards related to the investment made by other investors;
- the Bank is not involved in approving investments made by the fund and the managing company of the fund can decide to make investment in other types of assets, and no approval of the Bank is needed for such decision.

(vi) Going concern

On 24 May 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility for Mongolia to support the country's economic reform program. The total financing package amounts to approximately $5.5 billion, including support from the Asian Development Bank, the World Bank, Japan, Korea and China. One of the pillars of the program is a comprehensive effort to rehabilitate the banking system and strengthen the Bank of Mongolia. As part of the program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review (AQR). The AQR was performed predominantly based on version 2 of the European Central Bank's AQR Manual, as localized by the Bank of Mongolia in several areas.

3 Basis of Preparation (continued)

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

Following the AQR, the Bank of Mongolia plans to perform stress tests under varying macro-economic scenarios and assumptions, as well as to perform follow up supervisory inspections of each bank during which recent developments in the banks' financial status will be assessed as a follow up to the preliminary AQR results. The stress tests and AQR are planned to be completed by 31 March 2018, following which the results and related implications on the banks' capital are expected to be informed to the commercial banks.

As at the date of approval of these financial statements, AQR process (including stress testing) is ongoing and no requirement to adjust regulatory capital has been made by the BOM.

As disclosed in Note 39, in accordance with the IMF arrangement, following AQR, banks are required to present to BOM for approval their capitalization and business plans, which would cover any shortfalls identified by AQR, as well as their expected capitalization and profit and loss until 2019. In case of shortfall identified by either AQR or the business plan analysis, banks shall raise capital from existing and/or new shareholders during 2018. In accordance with IMF arrangement, the authorities will first seek full recapitalization of banks by their shareholders without recourse to public funds. Should the banks not be able to raise capital fully from their shareholders and the private sector, public funds could be used, if financial stability is at risk, subject to criteria that will be developed in consultation with IMF. Public funds will be available to the banks posing systemic risk.

Management is currently exploring with shareholders and other parties options for raising additional capital. Due to the uncertainties relating both to the amount of the required additional capital as well as the exact timing of the required recapitalization the parties are not yet able to commit however the management is confident that additional capital will be raised and therefore believes that preparation of these financial statements on going concern basis is appropriate.

To maintain the required liquidity level the Group and the Bank can attract additional funds from the Central Bank of Mongolia and in the interbank market. Diversification of liquidity sources minimizes the Group's dependence on any source and ensures full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Group and the available sources of additional fund-raising allow the Group to continue its operations as a going concern on a long term basis. Further, as disclosed in Note 37, substantial portion of customer demand accounts and savings accounts represent stable long-term source of financing, based on the past experience.

In addition, in making the judgement that the Group will continue as a going concern in the foreseeable future, management considered sufficient capitalisation of the Group (Note 38), availability of financing from its parent company, including possibilities for extension of maturity of subordinated debt, substantial amount of liquid financial assets, which can be realised within one month, as well as other factors disclosed in detail in Note 37.

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

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives (including long-term swaps) and unrealized foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e. until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 8,818,366 thousand is recognized as of 31 December 2017 (31 December 2016: MNT 20,290,007 thousand), refer to Note 34.

3 Basis of Preparation (continued)

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

In making this judgment management considered IFRS principles, nature of transactions, tax legislation governing similar transactions (such as tax treatment of gains and losses arising from foreign currency transactions and translation of financial assets denominated in foreign currency), current practices of tax authorities, including results of previous tax inspections, and practices applied in the banking sector, including practicability of differentiation between realized and unrealized gains and losses. Given that tax legislation and supporting regulations do not explicitly address tax treatment of the realized and unrealized gains and losses from financial derivatives and require differentiation of unrealized and realized foreign exchange gains on all financial assets and liabilities for tax purposes, management has assessed the risk that tax authorities may take different position and treat unrealized gains from open derivative positions as taxable income or otherwise challenge the Group's accounting policy (Note 4) and tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial, management believes that such risk is remote. For more details on income tax, refer to Note 34. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 39.

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

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e. delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax any impairment provision charges for the performing loans represent non-deductible expenses for the period. As in previous periods the Bank has determined impairment provision on performing loans as of 31 December 2017, as a part of its assessment of impairment provision in accordance with IFRS requirements, and treated related impairment provision charges as non-deductible expenses. In addition, impairment provision per Bank of Mongolia which is tax deductible expense is lower than IFRS provision as of 31 December 2017 (31 December 2016: higher than IFRS provision).

Management has performed detailed review of the accounting and tax treatment of charges and releases of impairment provision on performing loans, as well as of tax impact of difference between Bank of Mongolia and IFRS provision, and has concluded that such items represent temporary differences and thus related deferred tax asset of MNT 6,302,458 thousand (31 December 2016: deferred tax liability of MNT 1,221,508 thousand) has been recognized in these financial statements.

Management's view is that income from release of provision on performing loans represents non-taxable income and that related deferred tax asset is recoverable in the future. Given that tax regulations do not explicitly address tax treatment of income from release of provision on performing loans and that Mongolian tax regulations can be subject to different interpretations (refer to Note 39), management has assessed the risk that tax authorities may take different position and treat income from release of impairment provision as taxable income, in which case recognized deferred tax asset would not be recoverable. However, based on all available information at the date of issuance of these financial statements, management believes that such risk is remote.

Similarly, in accordance with the abovementioned regulations of the Bank of Mongolia, interest income on loans overdue more than 90 days should not be recognized in the Bank's profit or loss account, which is not in line with IFRS treatment.

3 Basis of Preparation (continued)

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

As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns. As a result, the Bank has recognized deferred tax liability of MNT 10,514,987 thousand as of 31 December 2017 (31 December 2016: MNT 13,323,282 thousand). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Group's tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote.

For more details on income tax, refer to Note 34. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 39.

(ix) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are the following:

- growth rate of Mongolian economy, inflation and foreign currency rates are based on the projections of reputable international institutions (such as World Bank) for Mongolia;
- increase in interest margin in 2017 and 2018 as the Bank is expanding loan portfolio, particularly consumer lending;
- decrease in non-performing loans in 2018 due to write-offs of non-performing loans in 2017;
- other assumptions are based on the Bank's current information in 2017 or early 2018.

4 Summary of Significant Accounting Policies

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

4.1 Consolidation

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

4 Summary of Significant Accounting Policies (continued)

4.1 Consolidation (continued)

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

4.2 Financial assets

The Group classifies its financial assets in the following categories:

- Cash and cash equivalents (Note 4.4 and 4.5)
- Financial assets at fair value through profit or loss (Note 4.6);
- Loans and receivables (Note 4.7, 4.8 and 4.9);
- Financial assets held to maturity (Note 4.10);
- Financial assets available for sale (Note 4.11).

For presentation of financial assets by measurement category refer to Note 42.

The Group determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

(i) Key measurement terms

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

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

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

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

4 Summary of Significant Accounting Policies (continued)

4.2 Financial assets (continued)

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

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

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

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

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

(ii) Initial recognition of financial assets

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

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

(iii) Derecognition of financial assets

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

4 Summary of Significant Accounting Policies (continued)

4.3 Foreign currency transactions

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

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

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

	2017	**2016**
Mongolian national Tugriks/US Dollar		
At 31 December	2,427.13	2,489.53
Mongolian national Tugriks/EURO		
At 31 December	2,897.87	2,605.79
Mongolian national Tugriks/British Pound Sterling		
At 31 December	3,264.73	3,057.89
Mongolian national Tugriks/Chinese Yuan		
At 31 December	371.58	357.96
Mongolian national Tugriks/Russian Ruble		
At 31 December	42.12	41.03

4.4 Cash and cash equivalents

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

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

4.5 Mandatory cash balances with the Central Bank of Mongolia

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

4 Summary of Significant Accounting Policies (continued)

4.6 Financial assets at fair value through profit or loss

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

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

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

Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 34), except when related gains and loss were already treated as taxable income and deductible expenses in previous periods (Note 34). Long-term swaps with the Central Bank are taken to swap USD denominated long-term borrowings from international financial institutions to local currency. Therefore these long-term swaps in practice represent natural hedge of the foreign currency risk arising on the borrowings. Foreign currency translation differences arising from all other financial assets do not give rise to temporary differences.

4.7 Due from other banks

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

4.8 Loans and advances to customers

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

4 Summary of Significant Accounting Policies (continued)

4.9 Short-term investment securities

Short-term investment securities represents interest bearing short-term treasury bills of the Bank of Mongolia ("BoM bills") issued at discount. Treasury bills of the Bank of Mongolia are unquoted non-derivative financial assets with fixed or determinable payments and fixed maturities. Short-term investment securities are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from an issuer due on fixed or determinable dates and has no intention of trading the receivable. Short-term investment securities are classified as loans and receivables and carried at amortised cost.

4.10 Investments securities held to maturity

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

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

4.11 Investment securities available for sale

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

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

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

4.12 Promissory notes purchased

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

4 Summary of Significant Accounting Policies (continued)

4.13 Non-Current Assets Classified as Held for Sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as ‘non-current assets held for sale’ if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale premises and equipment are not depreciated. Reclassified non-current financial instruments are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

4.14 Impairment of financial assets

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

The value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

4 Summary of Significant Accounting Policies (continued)

4.14 Impairment of financial assets (continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

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

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by the management. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment.

Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Regulatory reserve within equity is created as an appropriation of retained earnings based on the decision made by the shareholders or other authorized body, such as the Bank's management in accordance with the regulation of the Bank of Mongolia. Regulatory reserve represents a difference between impairment provision determined in accordance with the regulations of BOM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is non-distributable.

4.15 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

4 Summary of Significant Accounting Policies (continued)

4.16 Financial liabilities carried at amortised cost

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

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

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

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

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

Other borrowed funds - Other borrowed funds include loans obtained from international financial institutions and Mongolian government organizations, and promissory notes issued. These financial liabilities are carried at amortized cost using the effective interest rate method.

Subordinated debts - Subordinated debts are carried at amortized cost using the effective interest rate method. When subordinated debt agreements contain conversion options that meet definition of embedded derivative, these derivatives are separately valued at each reporting date and the change in fair value of derivatives is recognised in profit or loss account. Refer to Note 28.

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

4.17 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is recognised in the Statement of financial position within line 'Repurchase agreements'.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income in the statement of profit or loss and other comprehensive income and accrued over the life of reverse repo agreements using the effective interest rate method.

4 Summary of Significant Accounting Policies (continued)

4.18 Premises and equipment

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

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

Revalued amounts of the Group's premises is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Group applies revaluation model for premises since 2013.

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

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

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

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

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

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

4 Summary of Significant Accounting Policies (continued)

4.19 Investment property

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

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

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

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

Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Group applies fair value model for valuation of investment properties since 2013.

4.20 Intangible assets

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

Intangible assets with finite lives are amortised on straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods and methods are reviewed at least at each financial year-end. The estimated useful lives of intangible assets are as follows:

- Software licenses – 3-20 years;
- Land use rights – period of land use rights.

4.21 Operating leases

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

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

4 Summary of Significant Accounting Policies (continued)

4.22 Share capital, including preferred shares

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

4.23 Share premium

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

4.24 Dividends

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

4.25 Contingent assets and liabilities

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

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

4.26 Credit related commitments

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

Provision for credit related commitments represents a specific provision created for losses incurred on financial guarantees and commitments to extend credit to borrowers (customers) whose financial conditions deteriorated. Provision is assessed at each reporting date based on all available information on the date of approval of the Group’s consolidated financial statements and is recognized only when both of the following requirements are met:

- there is a high extent of certainty at the reporting date that the use of funds will be required under the terms of the agreement (e.g. draw down under a credit line agreement, payment in accordance with a financial guarantee contract);
- there is objective evidence of impairment at the reporting date, i.e. the factors that indicate that the Group will not be able to recover in full the amounts that will be advanced to the borrower/beneficiary in accordance with the terms of agreement.

4 Summary of Significant Accounting Policies (continued)

4.27 Provisions

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

From 2016 the Group creates provision for operational risks. This reserve represents a part of other reserve and is created as an appropriation of retained earnings based on the decision made by the Bank's management.

4.28 Fiduciary Assets

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

4.29 Taxation

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

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

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 33). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

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

4 Summary of Significant Accounting Policies (continued)

4.30 Employee benefits and social contributions

(i) Short-term benefits

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

(ii) Defined contribution plans

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

4.31 Income and expense recognition

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

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

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

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

4 Summary of Significant Accounting Policies (continued)

4.32 Repossessed collateral

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

In case of non-financial assets, if the Group's management makes decision to use acquired immovable property for its own business activities, the Group reclassifies repossessed collateral such as premises to line 'Premises and Equipment' and account for it in accordance with the accounting policy for property and equipment (Note 4.18). If the Group decides to keep premises in its ownership in order to earn rental income or for capital appreciation, or both, and not to occupy premises by the Group, the Group reclassifies repossessed collateral to line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.19). In case the Group makes decision to sell its movable and/or immovable properties acquired as repossessed collateral, the Group applies the accounting policy for inventories and keep them in line 'Repossessed collateral' on the face of the Statement of financial position unless IFRS 5 criteria are met and these assets represent assets held for sale. For details on non-financial repossessed assets, which are planned to be sold, refer to Note 22.

In case of repossessed collateral in the form of financial asset such as securities, which value will be recovered through sale, the Group recognises them within line 'Repossessed collateral' and classifies them for IFRS measurement purposes as securities available for sale and measures them at fair value. Fair value of repossessed financial collateral (securities) is determined on each reporting date and changes in fair value recognised within 'Revaluation reserve for AFS securities' within equity. The accounting policy relevant for financial assets available for sale is given in Note 4.11. For details on financial repossessed assets, refer to Note 21.

4.33 Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

4.34 Renegotiated loans

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

4.35 Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

4 Summary of Significant Accounting Policies (continued)

4.36 Amendments of the financial statements after issue

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

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note36
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Bank has not early adopted.

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

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

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

6 New Accounting Pronouncements (continued)

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the Group is expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
In thousands of Mongolian Tugriks	**IAS 39**	**IFRS 9**		**ECL**	**Other**	**Mandatory**	**Voluntary**	
Cash and balances with central bank (other than mandatory reserve)	L&R	AC	**222,351,578**	-	-	-	-	**222,351,578**
Mandatory cash balances with the Bank of Mongolia	L&R	AC	**395,029,289**	-	-	-	-	**395,029,289**
Investments in debt securities	FVTPL	FVOCI	234,686,513	-	-	-	-	234,686,513
Investments in debt securities	L&R	FVOCI	632,003,148	-	-	-	-	632,003,148
Investments in debt securities	HTM	AC	144,822,457	-	-	-	-	144,822,457
Total investments in debt securities			**1,011,512,118**	-	-	-	-	**1,011,512,118**
Investments in equity securities	FVTPL	FVTPL	14,389,831	-	-	-	-	14,389,831
Investments in equity securities	AFS	FVOCI (no recycling)	117,142,087	-	-	-	-	117,142,087
Investments in equity securities	AFS	FVTPL	101,474,901	-	-	-	-	101,474,901
Total investments in equity securities			**233,006,819**	-	-	-	-	**233,006,819**

6 New Accounting Pronouncements (continued)

In thousands of Mongolian Tugriks	Measurement category IAS 39	Measurement category IFRS 9	Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect: Remeasurement ECL	Effect: Remeasurement Other	Effect: Reclassification Mandatory	Effect: Reclassification Voluntary	Carrying value per IFRS 9 (opening balance at 1 January 2018)
Due from other banks	L&R	AC	**592,304,403**	-	-	-	-	**592,304,403**
Loans and advances to customers	L&R	AC	**2,105,055,504**	Tbd	-	-	-	**2,105,055,504**
Loans and advances to customers	L&R	FVTPL	**213,002,698**	Tbd	-	-	-	**213,002,698**
Total loans and advances to customers			**2,318,058,202**	-	-	-	-	**2,318,058,202**
Derivative financial instruments	FVTPL	FVTPL	**75,466,402**	-	-	-	-	**75,466,402**
Repossessed financial asset	AFS	FVTPL	**44,660,926**	-	-	-	-	**44,660,926**
Other financial assets	L&R	AC	**24,397,065**	-	-	-	-	**24,397,065**
Total financial assets			**4,916,786,802**	-	-	-	-	**4,916,786,802**

Treasury Bills of Bank of Mongolia were previously classified as loans and receivables under IAS 39, which will be classified as FVTOCI under IFRS 9 as the business model is “Hold to collect and sell”.

In 2017, the Group management has engaged an internationally recognised audit firm to assist the Group in implementing IFRS 9, including putting relevant systems, processes and controls in place. By early 2018, the Group expects to finalise its preliminary analysis of the Group’s financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date to assess the likely impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

No significant changes are expected for financial liabilities. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (continued)

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the de-recognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

6 New Accounting Pronouncements (continued)

If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (continued)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).

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

7 Cash and Cash Equivalents

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

In thousands of Mongolian Tugriks	**Group** 31 December 2017	**Group** 31 December 2016	**Bank** 31 December 2017	**Bank** 31 December 2016
Cash on hand	111,872,603	101,879,822	111,445,070	101,095,187
Current account with the Bank of Mongolia (other than mandatory reserve)	110,906,508	215,706,005	110,906,508	215,706,005
Cash and cash balances with central bank	**222,779,111**	**317,585,827**	**222,351,578**	**316,801,192**

Cash and balances with central bank (other than mandatory reserve) are not collateralised. All amounts are neither past due nor impaired as of 31 December 2017 and 31 December 2016. The Bank of Mongolia has a Caa1 rating from Moody's.

Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 37.

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

In thousands of Mongolian Tugriks	**Group** 31 December 2017	**Group** 31 December 2016	**Bank** 31 December 2017	**Bank** 31 December 2016
Cash and balances with the central banks (Note 7)	222,779,111	317,585,827	222,351,578	316,801,192
Due from banks (Note 11)	285,957,783	294,216,826	285,957,783	294,216,826
Bank of Mongolia treasury bills (Note 13,15)	632,003,148	41,979,911	632,003,148	41,979,911
Government treasury bills (Note 9)	-	141,625,606	-	141,625,606
Reverse sale and repurchase agreement (Note 10)	-	9,995,766	-	9,995,766
Total cash and cash equivalents	**1,140,740,042**	**805,403,936**	**1,140,312,509**	**804,619,301**

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Mandatory cash balances with the Bank of Mongolia	395,029,289	315,633,095
Mandatory cash balances with the Bank of Mongolia	**395,029,289**	**315,633,095**

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 12.0% (2016: 12.0 %) of customer deposits for a period of 2 weeks. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

9 Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit and loss as at 31 December 2017 and 31 December 2016 are as follows:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Government bonds	235,688,212	246,843,505	234,686,513	246,643,506
Government treasury bills	-	141,625,606	-	141,625,606
Other FVTPL investment securities	14,582,519	7,172,002	14,389,831	7,153,482
Total FVTPL financial assets	**250,270,731**	**395,641,113**	**249,076,344**	**395,422,594**

Government bonds and treasury bills designated at fair value through profit or loss

Government bonds are issued by the Ministry of Finance with original maturities ranging from 7 to 85 months (2016: 3 to 53 months), and issued at a discount. Government treasury bills have original maturity up to 3 months and thus represent cash and cash equivalents.

Below is the information on changes in government bonds and treasury bills designated at fair value through profit or loss during the years ended 31 December 2017 and 31 December 2016:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Carrying value as at 1 January	**388,469,112**	**-**	**388,269,112**	**-**
Acquisitions	534,553,511	482,261,309	533,751,812	482,061,310
Disposals of financial assets at FVTPL	(691,787,007)	(79,313,095)	(691,787,007)	(79,313,095)
Effect of exchange rate changes	337,312	836,715	337,312	836,715
Unamortised discount and premium	4,177,679	(15,964,109)	4,177,679	(15,964,109)
Interest income accrual	44,759,444	20,684,079	44,759,444	20,684,079
Interest income received	(44,821,839)	(20,035,788)	(44,821,839)	(20,035,788)
Fair value as at 31 December	**235,688,212**	**388,469,111**	**234,686,513**	**388,269,112**

9 Financial assets at fair value through profit or loss (continued)

Other financial assets at fair value through profit or loss

Below is the information on changes in the portfolio of other financial assets at fair value through profit or loss during the years ended 31 December 2017 and 31 December 2016:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Fair value as at 1 January	**7,172,001**	**5,442,398**	**7,153,482**	**5,410,038**
Acquisitions	8,401,655	240,828	6,945,972	170,445
Disposals of financial assets at FVTPL	(2,371,237)	(3,094,694)	(1,108,242)	(3,016,778)
Effect of exchange rate changes	(208,708)	1,654,682	(208,708)	1,654,682
Fair value gain or loss from change in net market value	1,588,808	2,928,788	1,607,327	2,935,095
Fair value as at 31 December	**14,582,519**	**7,172,002**	**14,389,831**	**7,153,482**

As these securities are carried at fair value based on observable market data (prices from respective stock exchanges), the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of trading securities based on Standard & Poor's ratings is as follows at 31 December 2017. Based on Moody's rating, B rated counterparties (commercial banks and the Government of Mongolia) represent C rated counterparties due to downgrade of Mongolia and its commercial banks in late 2016 (Note 2).

In thousands of Mongolian Tugriks	Government bonds	Government treasury bills	Total
Neither past due nor impaired			
- B-	234,686,513	-	**234,686,513**
Total neither past due nor impaired	**234,686,513**	**-**	**234,686,513**

Analysis by credit quality of trading securities based on Standard & Poor's ratings is as follows at 31 December 2016.

In thousands of Mongolian Tugriks	Government bonds	Government treasury bills	Total
Neither past due nor impaired			
- B-	246,643,506	141,625,606	**388,269,112**
Total neither past due nor impaired	**246,643,506**	**141,625,606**	**388,269,112**

10 Reverse sale and repurchase agreements

The Group had no outstanding balance of reverse sale and repurchase agreement as at 31 December 2017. As of 31 December 2016, the reverse sale and repurchase agreement relates to a short-term agreement with local bank, earning interest rate 15.5% p.a. with original maturity 7 days. The reverse sale and repurchase agreement is fully collateralized by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell or re-pledge in the case of non-repayment.

11 Due from Other Banks

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Correspondent accounts with other banks		
Domestic	36,363,256	11,734,532
Foreign	469,924,422	742,682,084
Short-term placements with other banks		
Domestic	22,383,105	37,706,210
Placements with other banks with original maturities of more than three months	63,633,620	31,729
Total due from other banks	**592,304,403**	**792,154,555**

Correspondent accounts with other banks as at 31 December 2017 include current accounts of USD 100 million (31 December 2016: USD 200 million) with a foreign bank, pledged as collateral for the loan obtained from these banks (Note 25 and Note 39). Other amounts due from other banks are not collateralized. The credit ratings are based on Standard & Poor's ratings where available.

Analysis by credit quality of amounts due from other banks outstanding is as follows:

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Neither past due nor impaired		
AA-	755,320	4,816,688
A+	49,762,979	46,176,779
A	145,378,622	62,596,820
A-	16,133,958	5,407,549
BBB+	1,577,582	259,099,674
BBB	-	569,758
BB+	245,470,779	-
BB	1,855,695	107,810,809
BB-	-	248,953,000
B+	630,186	-
B	418,693	-
B-	101,507,247	12,397,284
CCC+	20,520,206	-
CCC-	2,439,363	-
Unrated	5,853,773	44,326,194
Total neither past due nor impaired	**592,304,403**	**792,154,555**

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

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 37.As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

12 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Corporate loans	1,069,728,879	976,217,821
Loans to small and medium business	524,467,181	542,679,369
Consumer loans to individuals	471,438,576	256,880,787
Mortgage loans to individuals	347,956,316	349,797,988
Total gross loans and advances to customers	**2,413,590,952**	**2,125,575,965**
Less: Provision for loan impairment	(95,532,750)	(90,716,210)
Total loans and advances to customers	**2,318,058,202**	**2,034,859,755**

The aggregate amount of loans to the 30 biggest customers amounted to MNT 790,612,807 thousand (31 December 2016: MNT 790,641,419 thousand) and represents 32.9% (31 December 2016: 37.2%) of total loans and advances to customers at 31 December 2017. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

Movements in the provision for loan impairment during 2017 are as follows:

In thousands of Mongolian Tugriks	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Provision for loan impairment at 1 January 2017	**50,492,598**	**30,839,253**	**5,127,277**	**4,257,082**	**90,716,210**
Provision for impairment during the year	34,193,439	(5,535,531)	5,088,655	(335,004)	33,411,559
Exchange difference	(2,468,122)	2,536,309	692,181	245	760,613
Amounts written off during the year as uncollectible	(26,448,168)	(612,714)	(2,259,854)	(34,896)	(29,355,632)
Provision for loan impairment at 31 December 2017	**55,769,747**	**27,227,317**	**8,648,259**	**3,887,427**	**95,532,750**

Movements in the provision for loan impairment during 2016 are as follows:

In thousands of Mongolian Tugriks	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
Provision for loan impairment at 1 January 2016	**59,811,263**	**26,194,204**	**5,412,308**	**3,676,679**	**95,094,454**
(Recovery of)/provision for impairment during the year	30,963,283	17,618,651	1,619,990	1,701,874	**51,903,798**
Exchange difference	8,425,741	(1,616,965)	(1,491,720)	(1,121,471)	**4,195,585**
Amounts written off during the year as uncollectible	(48,707,689)	(11,356,637)	(413,301)	-	**(60,477,627)**
Provision for loan impairment at 31 December 2016	**50,492,598**	**30,839,253**	**5,127,277**	**4,257,082**	**90,716,210**

12 Loans and Advances to Customers (continued)

In accordance with the regulation of the Bank of Mongolia (the "BOM") it is required to recognize the excess difference of impairment provision determined in accordance with the regulations of BOM ("BOM impairment provision") in comparison to impairment provision determined under IFRS as a reserve in the statement of changes in equity. This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS and the new accounting regulations of the Bank of Mongolia, which are effective from 1 January 2016, and represents regulatory reserve. The amount of the reserve, created by the Bank as of 31 December 2016 was MNT 12,581,183 thousand. As at 31 December 2017, impairment provision in accordance with IFRS was higher than impairment provision in accordance with BOM regulation, therefore there was no need for such reserve. As a result, the Bank has transferred related amounts to retained earnings as required by BOM regulation.

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

	2017		2016	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Salary & Consumption	443,776,268	18.39%	250,908,681	11.80%
Mining & Exploration	426,171,133	17.66%	242,130,121	11.39%
Construction	351,638,125	14.57%	227,687,785	10.71%
Mortgage & House maintenance.	347,956,315	14.42%	349,797,988	16.46%
Trade - Whole & Retail	260,296,893	10.78%	231,047,086	10.87%
Manufacturing	242,721,397	10.06%	386,262,185	18.17%
Real estate	77,282,540	3.20%	82,144,387	3.86%
Electricity & Oil	46,597,798	1.93%	52,953,879	2.49%
Maintenance	42,140,076	1.75%	92,410,634	4.35%
Finance	34,387,821	1.42%	43,172,238	2.03%
Agriculture	27,039,069	1.12%	36,271,143	1.71%
Hotel & Restaurant	24,107,851	1.00%	27,276,519	1.28%
Transport & Communication	23,408,950	0.97%	36,270,290	1.71%
Car and vehicles	21,784,342	0.90%	4,009,689	0.19%
Tourism	18,207,973	0.75%	19,748,261	0.93%
Healthcare	12,230,871	0.51%	22,975,984	1.08%
Home appliances	5,877,966	0.24%	1,962,418	0.09%
Education	3,344,278	0.14%	2,461,998	0.12%
Public service	2,452,134	0.10%	4,569,404	0.21%
Infrastructure	1,026,118	0.04%	8,220,063	0.39%
Social services	774,111	0.03%	2,682,903	0.13%
Entrepreneurship	364,786	0.02%	543,857	0.03%
International organisations	4,137	0.00%	68,452	0.00%
Total loans and advances to customers (before impairment)	**2,413,590,952**	**100%**	**2,125,575,965**	**100%**

Information about collateral at 31 December 2017 is as follows:

In thousands of Mongolian Tugriks	**Corporate loans**	**Loans to small and medium business**	**Consumer loans to individuals**	**Mortgage loans to individuals**	**Total**
Loans collateralised by:					
- residential real estate	391,113,266	232,011,502	7,724,038	327,357,323	**958,206,129**
- other real estate	299,762,300	137,442,307	1,070,813	3,895,146	**442,170,566**
- tradable securities	43,847,241	8,670,801	-	21,225	**52,539,267**
- cash deposits	92,157,547	28,889,527	113,482,514	8,231,921	**242,761,509**
- other assets	242,848,525	117,453,044	91,997,485	8,450,701	**460,749,755**
Unsecured loans	-	-	257,163,726	-	**257,163,726**
Total loans and advances to customers	**1,069,728,879**	**524,467,181**	**471,438,576**	**347,956,316**	**2,413,590,952**

12 Loans and Advances to Customers (continued)

Information about collateral at 31 December 2016 is as follows:

In thousands of Mongolian Tugriks	**Corporate loans**	**Loans to small and medium business**	**Consumer loans to individuals**	**Mortgage loans to individuals**	**Total**
Loans collateralised by:					
- residential real estate	394,859,557	307,481,592	14,752,930	332,770,299	1,049,864,378
- other real estate	23,852,819	17,612,157	95,233	985,694	42,545,903
- tradable securities	38,296,951	21,082,940	-	18,907	59,398,798
- cash deposits	56,906,515	26,116,929	41,020,902	660,247	124,704,593
- other assets	462,301,979	170,385,751	28,979,911	15,362,841	677,030,482
Unsecured loans	-	-	172,031,811	-	172,031,811
Total loans and advances to customers	**976,217,821**	**542,679,369**	**256,880,787**	**349,797,988**	**2,125,575,965**

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

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

12 Loans and Advances to Customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In thousands of Mongolian Tugriks	**Corporate loans**	**Loans to small and medium business**	**Consumer loans to individuals**	**Mortgage loans to individuals**	**Total**
Neither past due nor impaired					
Excellent	661,159,419	354,284,500	457,607,649	329,519,438	**1,802,571,006**
Good	86,943,886	290,417	-	-	**87,234,303**
Restructured	121,524,370	22,944,621	58,221	122,346	**144,649,558**
Total neither past due nor impaired	**869,627,675**	**377,519,538**	**457,665,870**	**329,641,784**	**2,034,454,867**
Past due but not impaired					
- less than 30 days overdue	9,057,825	2,616,793	1,735,644	1,929,375	**15,339,637**
- 30 to 90 days overdue	44,902,435	15,430,196	2,617,293	4,396,432	**67,346,356**
- 91 to 180 days overdue	-	15,714,104	1,761,691	2,368,133	**19,843,928**
- 181 to 360 days overdue	26,858,834	17,942,172	2,232,962	2,329,074	**49,363,042**
- over 360 days overdue	47,539,735	53,836,991	5,425,116	7,291,518	**114,093,360**
Total past due but not impaired	**128,358,829**	**105,540,256**	**13,772,706**	**18,314,532**	**265,986,323**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	17,630,663	-	-	**17,630,663**
- 30 to 90 days overdue	33,093,937	-	-	-	**33,093,937**
- 91 to 180 days overdue	-	-	-	-	**-**
- 181 to 360 days overdue	7,883,159	5,274,823	-	-	**13,157,982**
- over 360 days overdue	30,765,279	18,501,901	-	-	**49,267,180**
Total individually impaired loans (gross)	**71,742,375**	**41,407,387**	**-**	**-**	**113,149,762**
Less impairment provisions	**(55,769,747)**	**(27,227,317)**	**(8,648,259)**	**(3,887,427)**	**(95,532,750)**
Total loans and advances to customers	**1,013,959,132**	**497,239,864**	**462,790,317**	**344,068,889**	**2,318,058,202**

12 Loans and Advances to Customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In thousands of Mongolian Tugriks	**Corporate loans**	**Loans to small and medium business**	**Consumer loans to individuals**	**Mortgage loans to individuals**	**Total**
Neither past due nor impaired					
Excellent	546,369,194	390,960,793	243,446,361	330,438,895	**1,511,215,243**
Good	39,152,035	10,042,011	-	-	**49,194,046**
Restructured	183,774,277	12,901,121	32,008	461,232	**197,168,638**
Total neither past due nor impaired	**769,295,506**	**413,903,925**	**243,478,369**	**330,900,127**	**1,757,577,927**
Past due but not impaired					
- less than 30 days overdue	11,076,332	5,006,925	1,853,275	2,293,092	**20,229,624**
- 30 to 90 days overdue	27,846,275	14,806,236	2,240,607	5,162,932	**50,056,050**
- 91 to 180 days overdue	12,214,615	11,236,224	1,474,984	3,585,477	**28,511,300**
- 181 to 360 days overdue	9,494,606	9,854,796	2,392,003	3,574,690	**25,316,095**
- over 360 days overdue	49,957,649	56,945,249	5,441,549	4,281,670	**116,626,117**
Total past due but not impaired	**110,589,477**	**97,849,430**	**13,402,418**	**18,897,861**	**240,739,186**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	22,717,210	-	-	-	**22,717,210**
- 30 to 90 days overdue	27,232,095	-	-	-	**27,232,095**
- 91 to 180 days overdue	-	-	-	-	**-**
- 181 to 360 days overdue	-	2,236,336	-	-	**2,236,336**
- over 360 days overdue	46,383,533	28,689,678	-	-	**75,073,211**
Total individually impaired loans (gross)	**96,332,838**	**30,926,014**	**-**	**-**	**127,258,852**
Less impairment provisions	(50,492,598)	(30,839,253)	(5,127,277)	(4,257,082)	**(90,716,210)**
Total loans and advances to customers	**925,725,223**	**511,840,116**	**251,753,510**	**345,540,906**	**2,034,859,755**

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

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

12 Loans and Advances to Customers (continued)

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

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

The effect of collateral at 31 December 2017:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Mongolian Tugriks	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,000,517,224	7,511,920,278	69,211,655	42,991,925
Loans to small and medium business	475,777,656	1,920,033,661	48,689,525	33,064,153
Consumer loans to individuals	160,826,950	892,193,243	310,611,626	52,338,685
Mortgage loans to individuals	345,509,857	649,331,218	2,446,459	1,526,407
Total	**1,982,631,687**	**10,973,478,400**	**430,959,265**	**129,921,170**

The effect of collateral at 31 December 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Mongolian Tugriks	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	929,856,260	7,352,191,388	46,361,560	41,709,989
Loans to small and medium business	533,509,127	2,360,050,553	9,170,243	6,859,185
Consumer loans to individuals	84,453,022	337,482,710	172,427,766	310,623
Mortgage loans to individuals	349,214,784	670,845,123	583,204	417,050
Total	**1,897,033,193**	**10,720,569,775**	**228,542,773**	**49,296,847**

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

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

Refer to Note 20 for the details on repossessed collateral, which was recognised by the Group as fore-closed properties. Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Information on related party balances is disclosed in Note 43. Currency, interest rate and maturity analysis of loans and advances to customers are disclosed in Note 37.

13 Short-term Investment Securities

Short-term investment securities as of 31 December 2017 represent interest earning short-term treasury bills of the Bank of Mongolia ("BoM bills") issued at discount. Below is the information on changes in the treasury bills of the BOM during the year ended 31 December 2017:

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Carrying value as at 1 January	**41,979,911**	**-**
Acquired	17,204,519,000	7,055,575,000
Matured	(16,614,019,000)	(7,013,575,000)
Unamortised discounted premium	(476,763)	(217,383)
Interest income accrual	41,123,291	23,621,571
Interest income received	(41,123,291)	(23,424,277)
Carrying value as at 31 December	**632,003,148**	**41,979,911**

As of 31 December 2017, the Bank has invested in a number of treasury bills issued by the Bank of Mongolia. Treasury bills at par value of MNT 632,500,000 thousand (MNT 42,000,000 thousand) with discounts and have effective interest rates of 11% (31 December 2016: 14% to 17%) p.a. with original maturities ranging from 5 to 8 days (31 December 2016: 7 to 84 days).

As of 31 December 2017, treasury bills amounted to MNT 25,291,700 thousands (31 December 2016: MNT 15,390,500 thousand) were collateralized under REPO arrangements disclosed in Note 26 and Note 39.

14 Investment Securities Available for Sale

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
MIK bond	47,624,997	-
Total debt securities	**47,624,997**	**-**
Unquoted equities, at fair value	58,499,266	58,493,633
Quoted equity securities, at fair value	112,492,725	67,672,295
Total corporate shares	**170,991,991**	**126,165,928**
Total	**218,616,988**	**126,165,928**

MIK bond represents Senior RMBS notes related to MIK securitisation transaction, described in Note 3, which was purchased in December 2017 and sold to Bank of Mongolia in January 2018.

Quoted equity securities mainly consists from investments in shares of APU JSC and of Mongolian Mortgage Corporation, both listed on Mongolian Stock Exchange, with fair value of MNT 101,048,177 thousands (31 December 2016: MNT 56,073,538 thousands) and MNT 11,017,825 thousands (31 December 2016: Nil) respectively as of 31 December 2017.

In 2013, the Government of Mongolia passed the law for investment funds to be formed. The first investment fund was subsequently established. The Fund is managed by managing company domiciled in Mongolia, which is not related to the Bank's owners or management, and its main activity is making investments with funds of its customers.

14 Investment Securities Available for Sale (continued)

As at 31 December 2017 and 31 December 2016, the Bank has owned 10% of investment units of the Fund, which invested its funds in real estate properties in early 2015. The total investment amounts to MNT 58 billion and management believes that it is fully recoverable as at 31 December 2017 and 31 December 2016, given the assessment of the value of purchased properties done by third party i.e. independent qualified appraisers and the assessment of the Bank's internal specialists.

Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements (Note 3). As the special licence was issued by the Financial Regulatory Commission in October 2015, the Fund operated as a dormant company since 2015. As at 31 December 2017 and 31 December 2016, management believes that carrying value of the investment approximates its fair value and is not aware of any impairment indicators.

Below is the information on changes in the portfolio of investment securities available for sale during the years ended 31 December 2017 and 31 December 2016:

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Carrying amount at 1 January	**126,165,928**	**68,088,050**
Fair value gains less losses	47,359,915	534,665
Interest income accrued	384,397	
Purchases – quoted	661,083	82,206
Purchases – unquoted	120,732,800	49,445,700
Disposals of investment securities available for sale – quoted	(2,961,295)	(8,715)
Disposals of investment securities available for sale – unquoted	(73,492,350)	(49,445,700)
Transferred from loans and advances	-	56,073,539
Exchange differences	(233,490)	1,396,183
Carrying amount at 31 December	**218,616,988**	**126,165,928**

Fair value gains of MNT 47,359,915 thousand (31 December 2016: MNT 534,662 thousand) in other comprehensive income for the year ended 2016 represents the fair value adjustment of available for sale investment.

Purchases and disposals of unquoted securities represent movement of Senior Tranche of MIK bond, refer to Note 15 and Note 3.

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

15 Investment Securities Held to Maturity

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Government bonds (a)	20,276,381	7,025,209	19,687,946	5,745,792
MIK bond (b)	83,407,188	69,646,125	83,407,188	69,646,125
Promissory Notes (c)	20,832,945	24,156,514	20,832,945	24,156,514
Corporate bonds	21,022,879	20,725,918	20,894,378	20,725,918
Total investment securities held to maturity	**145,539,393**	**121,553,766**	**144,822,457**	**120,274,349**

For measurement of investment securities held to maturity refer to Note 42.

15 Investment Securities Held to Maturity (continued)

(a) Government bonds

Government bonds are issued by the Ministry of Finance with original maturities ranging from 85 to 121 months (2016: 85 to 121 months), and issued at a discount. Government treasury bills are also issued by the Ministry of Finance, which have original maturity up to 3 months and thus represent cash and cash equivalents. Government bonds and treasury bills purchased in 2017 are classified as financial assets at fair value through profit or loss. Refer to Note 9.

Below is the information on changes in Government bonds classified as held to maturity investments during the years ended 31 December 2017 and 31 December 2016:

	Group		Bank	
In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Carrying value as at 1 January	**7,025,208**	**66,223,098**	**5,745,792**	**64,901,615**
Acquired	15,402,685	2,478,040	13,627,085	-
Matured	(2,530,647)	(61,951,240)	-	(59,488,900)
Unamortised discounted premium	(104,587)	1,132,028	(129,702)	1,132,027
Interest income accrual	1,189,228	15,604,708	1,150,277	15,662,474
Interest income received	(705,507)	(16,461,424)	(705,506)	(16,461,424)
Fair value as at 31 December	**20,276,381**	**7,025,209**	**19,687,946**	**5,745,792**

(b) MIK bond

The MIK bonds represent the bonds secured by the mortgage loans provided by the Bank to the customers. The bond represents a Junior residential mortgage-backed securities (RMBS) obtained from a Mongolian Mortgage Corporation LLC (MIK-SPC) securitisation transaction as disclosed in Note 3.

During the first quarter of 2017, the Bank participated in the tenth and eleventh MIK securitization transaction. The Bank sold total of MNT 40,584,078 thousand of the 8% Mortgage loans, described in Note 3, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 36,525,600 thousand Senior RMBS notes bearing interest at 4.5% and MNT 4,058,300 thousand Junior RMBS notes bearing interest at 10.5%.

During the second quarter of 2017, the Bank participated in the twelfth MIK securitization transaction. The Bank sold total of MNT 41,796,460 thousand of the 8% Mortgage loans, described in Note 3, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 37,616,800 thousand Senior RMBS notes bearing interest at 4.5% and MNT 4,179,600 thousand Junior RMBS notes bearing interest at 10.5%.

During the fourth quarter of 2017, the Bank participated in the thirteenth MIK securitization transaction. The Bank sold total of MNT 52,451,181 thousand of the 8% Mortgage loans, described in Note 3, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 47,240,600 thousand Senior RMBS notes bearing interest at 4.5% and MNT 5,248,900 thousand Junior RMBS notes bearing interest at 10.5%.

Senior RMBS notes were recognized as Investment securities available for sale, while Junior RMBS notes were recognized as Investment securities held to maturity, in accordance with the management's intentions. During 2017, the Bank sold Senior Tranche RMBS notes in amount of MNT 74,142,400 thousand to the Bank of Mongolia as repayment of 4% funding received under mortgage lending program.

15 Investment Securities Held to Maturity (continued)

As described in Note 3 the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. Any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

(c) Promissory Notes

As of 31 December 2017, the Bank has invested in MNT 41,727,323 thousand (2016: MNT 44,882,432 thousand) of promissory notes which have interest rates ranging from 4% to 14.4% p.a. and original maturities ranging from 864 to 1032 days (2016: interest rate ranging from 4% to 15.2% p.a. and original maturities ranging from 365 to 1032 days). Promissory notes with principal amount of MNT 22,000,000 thousands were collateralized under REPO arrangements disclosed in Note 26 and Note 39 as at 31 December 2017 and 31 December 2016.

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2017 based on S&P rating agency is as follows:

In thousands of Mongolian Tugriks	**Government bonds and treasury bills**	**MIK bond**	**Promissory Notes**	**Corporate bonds**	**Total**
Neither past due nor impaired					
- B-	19,687,946	-	-	-	**19,687,946**
- Unrated	-	83,407,188	20,832,945	20,894,378	**125,134,511**
Total neither past due nor impaired	**19,687,946**	**83,407,188**	**20,832,945**	**20,894,378**	**144,822,457**

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2016 is as follows:

In thousands of Mongolian Tugriks	**Government bonds**	**MIK bond**	**Promissory Notes**	**Corporate bonds**	**Total**
Neither past due nor impaired					
- B-	5,745,792	-	-	-	**5,745,792**
- Unrated	-	69,646,125	24,156,514	20,725,918	**114,528,557**
Total neither past due nor impaired	**5,745,792**	**69,646,125**	**24,156,514**	**20,725,918**	**120,274,349**

The Bank's management believes that there are no impairment loss indicators in relation to investment securities held to maturity and that no impairment provision is necessary for the investment securities held to maturity as of 31 December 2017 and 31 December 2016.

16 Investment Properties

Below is the information on changes in investment properties during the years ended 31 December 2017 and 31 December 2016:

In thousands of Mongolian Tugriks	Note	2017	2016
Investment properties at fair value at 1 January		**51,291,334**	**1,209,050**
Transferred from repossessed collateral		8,936,103	50,082,284
Transferred to Asset held for sale		(3,184,457)	-
Transferred to Plant properties and equipment		(65,100)	
Fair value gains/(losses)	32	527,707	-
Investment properties at fair value at 31 December		**57,505,587**	**51,291,334**

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

The Group's intention is to keep the premises for the purposes of earning rental income, capital appreciation, or both, and not to occupy premises by the Group. Accounting policy for investment properties is disclosed in Note 4.19.

17 Investment in Subsidiary

Investment in subsidiary as of 31 December 2017 and 31 December 2016 amounted to MNT 1,200,000 represents the 100% ownership of Golomt Capital LLC, a Company incorporated in Mongolia to operate in the field of brokerage and dealing. The investment is unquoted and carried at cost.

18 Other Assets

In thousands of Mongolian Tugriks	Group 31 December 2017	Group 31 December 2016	Bank 31 December 2017	Bank 31 December 2016
Other financial assets:				
Receivable from companies	9,125,034	1,659,639	9,627,664	1,646,405
Receivables on cash and settlements services	7,890,670	6,787,747	7,890,670	6,787,747
Other financial assets	9,445,659	6,984,214	9,445,659	6,957,399
Receivable from individuals	438,351	33,177	426,874	33,177
Less: provision for impairment	(2,993,802)	(3,242,005)	(2,993,802)	(3,242,005)
Total financial assets	**23,905,912**	**12,222,772**	**24,397,065**	**12,182,723**
Other non-financial assets:				
Prepayments for employees benefits	2,241,151	4,392,540	2,226,793	4,390,553
Other non-financial assets	1,001,142	362,601	1,001,142	362,601
Office materials and supplies	1,702,903	595,090	1,702,903	595,090
Prepayment for maintenance of buildings	1,245,538	1,186,154	1,245,538	1,186,154
Prepayments for employees	281,921	14,864	281,921	14,244
Prepayments for rent	236,540	70,300	236,540	66,220
Other prepayments	13,246,780	9,536,844	13,238,846	9,536,250
Total non-financial assets	**19,955,975**	**16,158,393**	**19,933,683**	**16,151,112**
Total other assets	**43,861,887**	**28,381,165**	**44,330,748**	**28,333,835**

The increase in the receivable from companies include a short-term receivable from a domestic company in the amount of CNY 50,000 thousand which is expected to be recovered shortly.

Total prepayments for employee benefits include prepayments related to loans to employees at preferential rates of MNT 1,326,188 thousand (31 December 2016: 3,974,876 thousand). In accordance with IFRS, fair value adjustments at initial recognition of loans to employees issued at preferential rates represents salary prepayment and is recognised within other non-financial assets. Further, the increase of other prepayments mainly relates to a prepayment of MNT 3,210,768 thousand for preferred share dividend.

18 Other Assets (continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2017 is as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Neither past due nor impaired					
- Excellent	7,890,670	6,037	9,627,638	6,791,164	**24,315,509**
Total neither past due nor impaired	**7,890,670**	**6,037**	**9,627,638**	**6,791,164**	**24,315,509**
Impaired					
- less than 30 days overdue	-	-	-	-	**-**
- 30 to 90 days overdue	-	-	26	1,215,387	**1,215,413**
- 91 to 180 days overdue	-	-	-	424	**424**
- 181 to 360 days overdue	-	-	-	555	**555**
- over 360 days overdue	-	420,837	-	1,438,129	**1,858,966**
Total impaired	**-**	**420,837**	**26**	**2,654,495**	**3,075,358**
Less impairment provisions	**-**	**(327,311)**	**-**	**(2,666,491)**	**(2,993,802)**
Total other financial assets	**7,890,670**	**99,563**	**9,627,664**	**6,779,168**	**24,397,065**

Analysis by credit quality of other financial assets outstanding at 31 December 2016 is as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Neither past due nor impaired					
- Excellent	5,448,769	31,847	832,848	3,872,597	**10,186,061**
Total neither past due nor impaired	**5,448,769**	**31,847**	**832,848**	**3,872,597**	**10,186,061**
Impaired					
- less than 30 days overdue	866,895	-	-	3,056	**869,951**
- 30 to 90 days overdue	113,526	-	761,562	-	**875,088**
- 91 to 180 days overdue	-	-	-	221,999	**221,999**
- 181 to 360 days overdue	-	1,330	49,791	-	**51,121**
- over 360 days overdue	358,557	-	2,204	2,859,747	**3,220,508**
Total impaired	**1,338,978**	**1,330**	**813,557**	**3,084,802**	**5,238,667**
Less impairment provisions	**(353,334)**	**(25,513)**	**(3,410)**	**(2,859,748)**	**(3,242,005)**
Total other financial assets	**6,434,413**	**7,664**	**1,642,995**	**4,097,651**	**12,182,723**

18 Other Assets (continued)

Movements in the provision for asset impairment during 2017 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2017	**369,862**	**9,061**	**3,334**	**2,859,747**	**3,242,005**
Provision for impairment during the year	(355,770)	320,040	(3,334)	206,239	**167,175**
Exchange difference	-	-	-	(373,597)	**(373,597)**
Amounts written off during the year as uncollectible	(14,092)	(1,790)	-	(25,898)	**(41,780)**
Provision for asset impairment at 31 December 2017	**-**	**327,311**	**-**	**2,666,491**	**2,993,802**

Movements in the provision for asset impairment during 2016 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2016	**313,913**	**-**	**816,815**	**1,764,880**	**2,895,608**
Provision for impairment during the year	56,992	3,175,393	(750,275)	1,162,230	**3,644,340**
Exchange difference	137,932	-	-	170,780	**308,712**
Amounts written off during the year as uncollectible	(155,503)	(3,149,880)	(63,130)	(238,142)	**(3,606,655)**
Provision for asset impairment at 31 December 2016	**353,334**	**25,513**	**3,410**	**2,859,748**	**3,242,005**

19 Intangible Assets

In thousands of Mongolian Tugriks	Group			Bank		
	Computer software licences	**Land use right**	**Total**	**Computer software licences**	**Land use right**	**Total**
Cost at 1 January 2016	25,589,233	673,313	26,262,546	25,291,042	673,313	25,964,355
Accumulated amortization	(11,521,966)	-	(11,521,966)	(11,228,356)	-	**(11,228,356)**
Carrying amount at 1 January 2016	**14,067,267**	**673,313**	**14,740,580**	**14,062,686**	**673,313**	**14,735,999**
Additions	2,056,837	-	**2,056,837**	2,056,049	-	**2,056,049**
Charge for the year (Note 33)	(2,849,105)	-	**(2,849,105)**	(2,845,311)	-	**(2,845,311)**
Carrying amount at 31 December 2016	**13,274,999**	**673,313**	**13,948,312**	**13,273,424**	**673,313**	**13,946,737**
Cost at 1 January 2017	**27,646,070**	**673,313**		**27,347,091**	**673,313**	**28,020,404**
Accumulated amortization	(14,371,071)	-	(14,371,071)	(14,073,667)	-	**(14,073,667)**
Carrying amount at 1 January 2017	**13,274,999**	**673,313**	**(14,371,071)**	**13,273,424**	**673,313**	**13,946,737**
Additions	1,289,687	-	**1,289,687**	1,289,687	-	**1,289,687**
Write-off	(2,586,898)	-	**(2,586,898)**	(2,586,898)	-	**(2,586,898)**
Charge for the year (Note 33)	(1,621,165)	-	**(1,621,165)**	(1,619,599)	-	**(1,619,599)**
Write-off of accumulated depreciation	2,586,898	-	**2,586,898**	2,586,898	-	**2,586,898**
Carrying amount at 31 December 2017	**12,943,521**	**673,313**	**13,616,834**	**12,943,512**	**673,313**	**13,616,825**

20 Premises and Equipment

/Group/

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	PPE reserve	Leasehold im-provement	Construction in progress	Total premises and equipment
Cost at 1 January 2016	149,177,883	2,873,547	30,794,596	6,256,232	1,485,371	1,262,386	14,193,628	**206,043,643**
Accumulated depreciation	(3,759,153)	(1,219,080)	(21,597,694)	(1,995,760)	-	(838,310)	-	**(29,409,997)**
Carrying amount at 1 January 2016	**145,418,730**	**1,654,467**	**9,196,902**	**4,260,472**	**1,485,371**	**424,076**	**14,193,628**	**176,633,646**
Additions	-	-	945,915	87,404	361,742	349,513	3,033,491	**4,778,065**
Transfers	-	-	1,158,435	(31,057)	(1,127,378)	-	-	**-**
Disposals	-	(260,205)	(79,171)	(11,974)	-	-	(3,400,000)	**(3,751,350)**
Write-offs	-	-	(190,321)	(63,632)	-	-	-	**(253,953)**
Charge for the year	(3,902,554)	(273,694)	(4,831,893)	(340,042)	-	(317,188)	-	**(9,665,371)**
Transfers	-	-	(1,325)	1,325	-	-	-	**-**
Disposals	-	211,589	79,171	7,379	-	-	-	**298,139**
Write-offs	-	-	189,032	55,450	-	-	-	**244,482**
Reversal of accumulated depreciation	1,928,215	-	-	-	-	-		**1,928,215**
Revaluation	810,282	-		-	-	-		**810,282**
Carrying amount at 31 December 2016	**144,254,673**	**1,332,157**	**6,466,745**	**3,965,325**	**719,735**	**456,401**	**13,827,119**	**171,022,155**
Cost at 1 January 2017	151,916,380	2,613,342	32,629,454	6,236,973	719,735	1,611,899	13,827,119	**209,554,902**
Accumulated depreciation	(7,661,707)	(1,281,185)	(26,162,709)	(2,271,648)	-	(1,155,498)	-	**(38,532,747)**
Carrying amount at 1 January 2017	**144,254,673**	**1,332,157**	**6,466,745**	**3,965,325**	**719,735**	**456,401**	**13,827,119**	**171,022,155**
Additions	1,776,573	72,300	6,794,827	531,010	5,791,243	1,812,166	305,088	**17,083,207**
Transfers	-	-	2,328,372	(15,912)	(2,312,460)	-	-	**-**
Disposals	-	(100,000)	(53,066)	(9,784)	(7,052)	-	(13,203,572)	**(13,373,474)**
Write-offs	-	-	(597,697)	(37,059)	-	-	-	**(634,756)**
Charge for the year	(3,794,039)	(228,183)	(3,888,264)	(334,022)	-	(531,443)	-	**(8,775,951)**
Transfers	-	-	(2,426)	2,426	-	-	-	**-**
Disposals	-	34,918	52,035	9,221	-	-	-	**96,174**
Write-offs	-	-	560,539	17,079	-	-	-	**577,618**
Impairment charge	(25,400,000)	-	-	-	-	-	-	**(25,400,000)**
Carrying amount at 31 December 2017	**116,837,207**	**1,111,192**	**11,661,065**	**4,128,284**	**4,191,466**	**1,737,124**	**928,635**	**140,594,973**

20 Premises and Equipment (continued)
/Bank/

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	PPE reserve	Leasehold im-provement	Construction in progress	Total premises and equipment
Cost at 1 January 2016	149,177,883	2,870,006	30,776,569	6,242,681	1,485,371	1,262,387	14,193,628	**206,008,525**
Accumulated depreciation	(3,759,153)	(1,218,010)	(21,580,380)	(1,993,925)	-	(838,311)	-	**(29,389,779)**
Carrying amount at 1 January 2016	**145,418,730**	**1,651,996**	**9,196,189**	**4,248,756**	**1,485,371**	**424,076**	**14,193,628**	**176,618,746**
Additions	-	-	945,592	85,712	361,742	349,513	3,033,491	**4,776,050**
Revaluation	810,282	-	-	-	-	-	-	**810,282**
Transfers	-	-	1,158,435	(31,057)	(1,127,378)	-	-	**-**
Disposals	-	(260,205)	(79,171)	(11,974)	-	-	(3,400,000)	**(3,751,350)**
Write-offs	-	-	(190,321)	(63,632)	-	-	-	**(253,953)**
Charge for the year	(3,902,554)	(272,514)	(4,830,776)	(338,937)	-	(317,188)	-	**(9,661,969)**
Transfers	-	-	(1,325)	1,325	-	-	-	**-**
Disposals	-	211,589	79,171	7,379	-	-	-	**298,139**
Write-offs	-	-	189,032	55,450	-	-	-	**244,482**
Reversal of accumulated deprecia-tion	1,928,215	-	-	-	-	-	-	**1,928,215**
Carrying amount at 31 Decem-ber 2016	**144,254,673**	**1,330,866**	**6,466,826**	**3,953,022**	**719,735**	**456,401**	**13,827,119**	**171,008,642**
Cost at 1 January 2017	151,916,380	2,609,801	32,611,104	6,221,730	719,736	1,611,900	13,827,119	**209,517,771**
Accumulated depreciation	(7,661,707)	(1,278,934)	(26,144,277)	(2,268,710)	-	(1,155,499)	-	**(38,509,128)**
Carrying amount at 1 January 2017	**144,254,673**	**1,330,866**	**6,466,826**	**3,953,022**	**719,735**	**456,401**	**13,827,119**	**171,008,642**
Additions	1,776,573	72,300	6,756,920	531,010	5,791,243	1,812,166	305,088	**17,045,300**
Transfers	-	-	2,328,372	(15,912)	(2,312,460)	-	-	**-**
Disposals	-	(100,000)	(53,066)	(9,784)	(7,052)	-	(13,203,572)	**(13,373,474)**
Write-offs	-	-	(581,746)	(37,058)	-	-	-	**(618,804)**
Charge for the year	(3,794,039)	(228,183)	(3,875,130)	(334,022)	-	(531,443)	-	**(8,762,817)**
Transfers	-	-	(2,426)	2,426	-	-	-	**-**
Disposals	-	34,918	52,035	9,221	-	-	-	**96,174**
Write-offs	-	-	543,022	17,079	-	-	-	**560,101**
Impairment charge	(25,400,000)	-	-	-	-	-	-	**(25,400,000)**
Carrying amount at 31 Decem-ber 2017	**116,837,207**	**1,109,901**	**11,634,807**	**4,115,982**	**4,191,466**	**1,737,124**	**928,635**	**140,555,122**

20 Premises and Equipment (continued)

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

As disclosed in Note 3, fair value of premises as of 31 December 2017 was assessed using income method, due to the nature of premises and comparable market data. For more information on valuation method used and management's judgements refer to Note 3. As a result, the Group recognised impairment charge of MNT 25,400,000 thousand, out of which MNT 5,242,377 thousand represents decrease in revaluation reserves and MNT 20,157,623 thousand is recognised through profit or loss account. The Bank's internal valuation specialists have considered changes in fair value of premises as of 31 December 2016 and recognised increase in fair value of premises of MNT 2,738,497 thousand.

In 2017, the disposed of a construction in progress include in the amount of MNT 12,853,572 thousand to its related party.

At 31 December 2017 the carrying amount of premises would have been MNT 112,434,716 thousand (2016: MNT 134,040,076 thousand) had the assets been carried at cost less depreciation.

The amount reconciles to the carrying value of the premises as follows:

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Premises at revalued amount in the statement of financial position	116,837,207	144,254,673
Revaluation reserve presented in equity	(3,961,909)	(9,644,868)
Revaluation reserve - transfer to retained earnings	(440,582)	(569,729)
Premises at cost less accumulated depreciation	**112,434,716**	**134,040,076**

Refer to Note 41 for the disclosure for inputs and model used to determine fair value and its sensitivity analysis.

21 Repossessed Collaterals

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Financial assets at fair value	44,660,926	44,660,926
Non-financial assets at cost	4,831,076	4,249,744
Less: Impairment provision	(2,401,216)	(4,101,061)
Total repossessed collaterals	**47,090,786**	**44,809,609**

Repossessed collateral represents real estate assets and financial assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The non-financial assets do not meet the definition of non-current assets held for sale and investment properties, and are classified as inventories in accordance with IAS 2 "Inventories". In case of repossessed collateral in the form of financial asset such as securities, Group classifies them for IFRS measurement purposes as securities available for sale and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

21 Repossessed collaterals (continued)

During 2017, the Group reclassified MNT 5,987,801 thousand (2016: MNT 50,082,284 thousand) and MNT 37,302,020 thousand (2016: MNT 17,444,424 thousand) of assets from repossessed collateral to Investment properties and Non-Current Assets Classified as Held for Sale respectively, following the management's intentions in relation to those assets. Refer to Notes 16 and 22.

Financial assets at fair value as of 31 December 2017 represent shares in Burkhan Del Alt LLC which the Bank has acquired in the process of settlement of overdue loans. Financial repossessed collaterals are recognised as investments available for sale. Refer to Note 42.

Non-financial assets at cost represent premises which the Bank has acquired in the process of settlement of overdue loans. The impairment provision disclosed above fully relates to non-financial assets. For the accounting policy applied refer to Note 4.33.

Movements in the provision for repossessed non-financial collaterals during 2017 and 2016 are as follows:

In thousands of Mongolian Tugriks	2017	2016
Provision for repossessed collaterals at 1 January	**4,101,061**	**1,755,861**
Provision /(reversal) for impairment during the year	(286,172)	2,345,200
Amounts written off during the year as uncollectible	(1,413,673)	-
Provision for repossessed collaterals at 31 December	**2,401,216**	**4,101,061**

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

As disclosed in Note 12, regulatory reserve of MNT 29,773,951 thousands was created as impairment provision in accordance with BoM was higher than the impairment provision in accordance with IFRS for repossessed collaterals.

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

22 Non-Current Assets Classified as Held for Sale

Non-current assets classified as held for sale were previously classified as repossessed collateral (foreclosed assets), acquired by the Group in settlement of overdue loans. Management approved a plan to sell non-current assets on 25 December 2017. The Group is actively marketing these assets and expects the sale to complete within 12 months. Further accounting policies of non-current assets classified as held for sale is disclosed in Note 4.13.

22 Non-Current Assets Classified as Held for Sale (continued)

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Non-current assets held for sale:		
Non-financial		
Office and commercial spaces	38,635,433	5,985,718
Residential apartments or houses	11,479,720	5,325,228
Buildings	1,083,642	1,083,642
Equipment	1,196,903	-
Other	160,719	-
Financial		
Equity securities	-	5,049,835
Total non-current assets held for sale	**52,556,417**	**17,444,424**

Refer to Note 41 for the disclosure of the fair value of financial instruments. Currency, interest rate and maturity analysis of non-current assets classified as held for sale are disclosed in Note 37.

23 Due to Other Banks

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Short-term placements of other banks	255,246,082	103,933,499
Long-term placement of other banks	132,946,151	17,968,518
Total due to other banks	**388,192,233**	**121,902,017**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed with Mongolian and foreign banks. The increase in amounts of due to other banks mainly relates to short and long term placements from a local bank.

At 31 December 2017 short-term placement relates to current accounts from local and foreign banks, and deposits from local banks and foreign banks with interest rates ranging from 1.6% p.a. to 14.0% p.a. (2016: from 3.0% p.a. to 14.5% p.a.) and original maturities ranging from 5 to 516 days (2016: from 5 to 90 days).

Refer to Note 41 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 37.

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

24 Customer Accounts

In thousands of Mongolian Tugriks	Group 31 December 2017	Group 31 December 2016	Bank 31 December 2017	Bank 31 December 2016
State and public organizations	**270,681,877**	**185,378,977**	**270,681,877**	**185,378,977**
- Current/settlement accounts	207,265,363	109,749,345	207,265,363	109,749,345
- Demand deposits	45,518,223	58,278,383	45,518,223	58,278,383
- Term deposits	17,898,291	17,351,249	17,898,291	17,351,249
Legal entities	**910,470,692**	**733,633,909**	**910,722,982**	**733,253,306**
- Current/settlement accounts	637,255,237	531,452,603	637,507,527	531,072,000
- Demand deposits	50,754,191	60,294,309	50,754,191	60,294,309
- Term deposits	222,461,264	141,886,997	222,461,264	141,886,997
Individuals	**2,234,190,600**	**1,852,067,325**	**2,233,766,425**	**1,851,900,020**
- Current/demand accounts	154,058,148	114,728,969	153,633,973	114,561,664
- Demand deposits	417,543,390	407,064,810	417,543,390	407,064,810
- Term deposits	1,662,589,062	1,330,273,546	1,662,589,062	1,330,273,546
Other	**38,748,463**	**32,795,258**	**38,748,463**	**32,795,257**
- Current/demand accounts	26,601,431	19,870,884	26,601,431	19,870,884
- Demand deposits	445,708	920,243	445,708	920,243
- Term deposits	11,701,324	12,004,131	11,701,324	12,004,130
Total customer accounts	**3,454,091,632**	**2,803,875,469**	**3,453,919,747**	**2,803,327,560**

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

24 Customer Accounts (continued)

The management currently does not monitor concentration of customer accounts per economic sectors. Therefore, related information is not disclosed in these financial statements. At 31 December 2017 the aggregate amount of the top 30 biggest customers is MNT 818,650,820 thousand (31 December 2016: MNT 724,652,186 thousand) or 24% of total customer accounts (31 December 2016: 26%).

The amount due to a subsidiary amounting to MNT 219,710 thousand (2016: MNT 1,231,005 thousand) was eliminated in the Group's financial statements.

At 31 December 2017, included in customer accounts are deposits of MNT 8,632,902 thousand (2016: MNT 7,391,954 thousand) held as collateral for irrevocable commitments under bank guarantee.

25 Other Borrowed Funds

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
(a) Borrowed funds under project		
Borrowed funds under Project /MNT/	365,213,958	593,876,110
Borrowed funds under Project /USD/	549,730	921,098
Borrowed funds under Project /EUR/	749,063	1,043,461
Total borrowed funds under projects	**366,512,751**	**595,840,669**
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	260,536,421	497,834,077
Trade finance from foreign banks and financial institutions /USD/	104,241,184	89,470,981
Trade finance from foreign banks and financial institutions /EUR/	15,532,154	4,208,098
Trade finance from foreign banks and financial institutions /CNY/	10,918,980	5,671,627
Trade finance from foreign banks and financial institutions /GBP/	155,833	143,302
Trade finance from foreign banks and financial institutions /JPY/	-	2,701,243
Total borrowings from foreign banks and financial institutions	**391,384,572**	**600,029,328**
TOTAL (a+b)	**757,897,323**	**1,195,869,997**

25 Other Borrowed Funds (continued)

(a) Borrowed funds under project

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Government price stabilization program		
Housing mortgage program	247,279,456	232,770,498
Project loan of KFB bank	3,741,133	4,580,317
Other borrowing under project	581,000	3,111,900
Project to increase number of warehouses and to support development of intensive livestock	579	5,338,587
Projects financed by Development Bank of Mongolia		
MNCCI leather processing project	15,751,313	21,274,202
Funding for Asia-Europe meeting	15,242,618	21,422,706
Project 888 to support export and substitute import	15,043,458	23,372,257
Other borrowing under project	4,428,414	7,839,890
Project on meat production	4,256,210	4,506,575
Agriculture 2016 program	2,160,888	4,576,397
Project on renewing the cashmere technology	-	98,354,244
Project on producing woollen goods	-	48,022,000
Project on supporting milk and dairy products manufacturing	-	41,133,334
Project on constructing greenhouse farm	-	25,926,550
Project on supporting the sewing industry	-	3,610,600
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	15,654,490	12,001,016
Borrowings under SME development and environment protection	194,596	456,956
Private sector development project loan 2, MNT, USD	15,824	126,106
Other government projects		
Project to support employment	26,140,600	-
Borrowings under SME industry support fund	12,526,518	14,521,244
Student development program	1,987,754	1,000,000
Borrowings under Agriculture and Rural Development Project	1,152,766	1,090,321
Other borrowing under project	355,134	460,270
Borrowings under SME development and natural environment protection	-	18,687,810
Borrowings under project for support to finished wool and cashmere producers	-	1,136,070
Borrowings under Housing finance Project	-	485,084
Borrowings under 40000 Housing Unit Development program	-	35,735
Total borrowed funds under projects	**366,512,751**	**595,840,669**

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

As disclosed in Note 3, most of these funds are obtained for specific purposes (issuing loans at advantageous rates to target customers), defined by the lenders or the Government of Mongolia, and therefore they are obtained at interest rates which may be lower than rates at which the Bank could source the funds from other lenders. Interest rate on most of these borrowed funds ranges between 0.9% to 6% p.a., while interest rate on most of the loans issued from these sources range between 3.8% and 9% p.a. The management considered whether initial gain on recognition of these borrowings should be recognised and concluded that they meet definition of principal market and that no gains or losses should arise on initial recognition of related borrowings and loans to customers. For management's judgments refer to Note 3. The major programs include funding from the Development Bank of Mongolia on funding specific sectors or types of projects that are related to key priorities for development of Mongolian economy (e.g. achieving diversification of economy) by the Government of Mongolia. These programs are briefly outlined below.

25 Other Borrowed Funds (continued)

(a) Borrowed funds under projects

The Government of Mongolia and the Bank of Mongolia entered into a memorandum of understanding on joint implementation of a mid-term program for stabilizing the price of main goods on 22 October 2012 (SIFS). Within the framework of this program, the Bank entered into agreements for Fuel Pricing Stabilization (SIFS) on 10 December 2012, Food Price Stabilization on 24 December 2012, and Construction sector support and apartment price stabilization on 7 May 2013 with the Bank of Mongolia. For SIFS and FPS the loan bears 0.89% interest rate per annum. The Bank then lends the funds to approved participants in the programs at the interest rate of 3.8% p.a. For Construction sector support and apartment price stabilization program the loan bear 2.5%-4% interest rate per annum. And the Bank then lends the funds to approved participants in the program at the interest rate of 5.5%-7% p.a. Under the agreements with the Bank of Mongolia, in the event the Bank does not repay the Bank of Mongolia in accordance with the terms, the Bank of Mongolia has the right to debit the Bank’s account at the Bank of Mongolia. The Bank approves all loans disbursement and bears the credit risk. During 2016, the SIFS and FPS programs have ended as per the agreements. The Bank has fully repaid all of outstanding amounts within these programs.

Under Housing Mortgage Program, the Bank received funds during 2014, 2015 and 2016 from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 4% p.a. Newly issued loans or refinanced loans need to meet specific requirements (apartments with maximum area of 80 square meters, down payment of at least 30% apartment purchase price, good customer’s credit history with respective bank and other Mongolian banks etc.) in order to qualify for this program. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates of 8% p.a. defined by the Bank of Mongolia i.e. the Bank has no discretionary rights in determining interest rates on issued loans. The Bank approves all loans disbursement or refinancing under 8% interest rate and bears the credit risk.

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

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

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

In 2015, the Bank participated in Government program of financing cashmere industry through Development Bank of Mongolia and the interest rate of the funding is 6% p.a. with maturity of up to 3 years. The Bank can issue loans to the targeted customers with interest of 9% p.a.

25 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

In 2016, the Bank participated in a program funded by the Development Bank of Mongolia on financing of hotels accommodating the representatives of 11th Asia-Europe Meeting. Under this program the Bank obtained funding at interest rates of 4.5% p.a. and issued loans to qualified hotels at advantageous interest rate of 13% p.a. The Bank bears the credit risk in this arrangement.

On 10 February 2017, the Bank participates in the Government program of financing project to support employment for providing small and medium sized loans to individuals and enterprises to create workplaces and manufacturing. The Bank received related funding from the General Agency for Labor Welfare Service at interest rate of 3% p.a., with maturity of 2 years. The Bank bears the credit risk in this arrangement.

Furthermore, within the Government project to support export and substitute import products in Mongolia, the Bank entered into an arrangement with the Development Bank of Mongolia on financing of small and medium-sized projects. The funding bears interest rate of 6% p.a. with maturity date of 5 March 2019. The Bank has discretionary rights to determine the interest rate up to 9% p.a., at which the loans are issued to the targeted customers.

As of 31 December 2017 the Bank has breached 2 covenants, open credit exposure ratio and non-performing loans ratio, related to borrowings from World Business Capital and Export Development Canada in the amount of MNT 1,187,406 thousands and in the amount of MNT 17,560,810 thousands respectively. Therefore, the Bank requested waiver letters from those 2 borrowers, however the waiver letters has not been received as of 31 December 2017. In accordance with IFRS, management has classified the total amount of these borrowings in the category "On demand and less than one month". The Management is confident that waivers will be received in the nearest future. Therefore management has disclosed additional information about expected maturities in case the waivers are obtained in nearest future. Please refer to the Note 37. There were no breaches of covenants as of 31 December 2016.

25 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2017 in original currency	Principle balance as of 31 December 2017 in thousands of MNT
Government price stabilization program	Bank of Mongolia	Project loan of KFB bank	EUR	12/11/2012	12/25/2020	258	748,881
	Bank of Mongolia	Housing mortgage program	MNT	5/30/2017	9/30/2019	28,026,480	28,026,480
	Bank of Mongolia	Other borrowing under project	MNT	5/7/2001	5/7/2018	581,000	581,000
	Bank of Mongolia	Project loan of KFB bank	MNT	5/16/2013	6/25/2021	2,984,980	2,984,980
	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	9/30/2019	219,104,309	219,104,309
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Funding for Asia-Europe meeting	MNT	3/11/2016	12/21/2018	15,235,000	15,235,000
	Development Bank of Mongolia	Agriculture 2016 program	MNT	4/14/2016	6/29/2018	2,143,206	2,143,206
	Development Bank of Mongolia	Project on meat production	MNT	3/25/2016	2/28/2020	4,250,000	4,250,000
	Development Bank of Mongolia	MNCCI leather processing project	MNT	8/22/2014	7/27/2021	15,740,382	15,740,382
	Development Bank of Mongolia	Project 888 to support export and substitute import (less than 2 bln)	MNT	9/1/2014	12/30/2019	176,693	176,693
	Development Bank of Mongolia	Project 888 to support export and substitute import (more than 2 bln)	MNT	8/28/2014	1/29/2020	14,857,819	14,857,819
	Development Bank of Mongolia	Projects to support export and substitute import /up to 300 billion/	MNT	9/28/2015	11/27/2020	4,425,464	4,425,464

25 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2017 in original currency	Principle balance as of 31 December 2017 in thousands of MNT
Joint projects of Mongolian government	World Bank	Private sector development project loan 2, MNT	MNT	10/18/2007	12/20/2017	11,536	11,536
	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	12/31/2017	15,489,028	15,489,028
	JICA	Borrowings under SME industry support fund	USD	9/29/2006	12/31/2019	80	194,167
Other government projects	Government	Borrowings under SME industry support fund	MNT	7/10/2012	12/31/2017	5,516,365	5,516,365
	Government	Borrowings under SME industry support fund	MNT	6/12/2015	3/5/2019	7,097,032	7,097,032
	Government	Student development program	MNT	11/30/2016	11/30/2026	1,987,754	1,987,754
	Government	Borrowings under Agriculture and Rural Development Project	MNT	2/10/2011	12/13/2019	1,149,202	1,149,202
	Government	Project to support employment	MNT	2/8/2017	8/1/2024	26,140,600	26,140,600
	Government	Other borrowing under project (Training Loan from Foreign bank)	USD	11/12/2009	5/1/2027	144	350,169

25 Other Borrowed Funds (continued)

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank of MNT 247,279,457 thousand represents loans obtained from foreign banks and financial institution in the amount of USD 100,000 thousand on 15 July 2016 with maturity of 24 months and USD 7,500 thousand on 26 September 2017 with maturity of 97 months. The borrowings of USD 100,000 thousand is collateralized by the Bank's current account at these banks (refer to Note 11).

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2017 the Bank utilised MNT 127,290,678 thousand (31 December 2016: MNT 102,195,250 thousand) of related credit lines and issued loans for the same amount. Funding is provided by international banks and financial institutions for the purpose of import financing of transactions of customers. The term of such funding is up to 3 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer. The increase in trade finance relates to ordinary course of business activities as well as new funding in USD and EUR from foreign banks.

Refer to Note 41 for the disclosure of fair value of other borrowed funds. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 37.

Borrowings from foreign banks and financial institutions have certain financial covenants and there were no breach in the covenants as at 31 December 2017.

26 REPO Arrangements

As of 31 December 2017, sale and repurchase agreements relate to placements from local banks and financial institutions, bearing interest rate ranging from 7.5% p.a. to 11.0% p.a. (2016: from 7.5% p.a. to 17.0% p.a) respectively, with original maturities ranging from 7 to 941 days (2016: from 7 to 941 days). These placements are fully collateralized by the Bank of Mongolia treasury bills and Promissory notes disclosed in Note 13 and Note 15 respectively, please also see Note 39.

27 Other Liabilities

Other liabilities comprise the following:

	Group		**Bank**	
In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Other financial liabilities	**48,630,469**	**31,383,555**	**48,630,446**	**31,353,878**
Liabilities for settlements of transactions	28,354,420	18,336,020	28,354,420	18,336,020
Liabilities for loans sold to MIK with recourse	8,327,985	5,539,233	8,327,985	5,539,233
Account payable	4,796,355	1,315,093	4,796,332	1,315,093
Other	7,151,709	6,193,209	7,151,709	6,163,532
Other non-financial liabilities	**3,763,827**	**2,710,213**	**3,610,230**	**2,701,720**
Payables to employees	1,721,668	1,527,632	1,675,272	1,527,450
Tax payable other than on income	2,042,159	1,182,581	1,934,958	1,174,270
Total other liabilities	**52,394,296**	**34,093,768**	**52,240,676**	**34,055,598**

The increased amount of liabilities for settlement of transactions relate to amounts transferred to other banks in early January 2018, at customers' requests made in late December 2017.

27 Other Liabilities (continued)

As a result, related amounts were transferred from customers' accounts to the accounts used for settlement of transactions within 'Other financial liabilities' as of 31 December 2017 and further cleared through inter-banking settlement in early January 2018.

Furthermore, The Bank participated in two tranches of monetization transactions with MIK in 2017 for selling of mortgage loans with recourse. The Bank sold MNT 4,990,024 thousand and MNT 4,261,089 thousand of mortgage loans to MIK during 2017, for which the Bank received funding bearing interest rate at 15% p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition and a financial liability is recognised for the consideration received from MIK. The balance in other liability as of 31 December 2017 has decreased by the repayments of related loans.

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

28 Subordinated Debt

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Subordinated loans from Golomt Financial Group	97,042,814	87,733,803
Total	**97,042,814**	**87,733,803**

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

Subordinated loans as of the year ended 31 December 2017:

In thousands of Mongolian Tugriks	**Maturity date**	**Currency**	**Interest rate p.a.**	**Face value in currency**
Golomt Financial Group (I)	31/12/2023	USD	8.0%	10,000,000
Golomt Financial Group (II)	08/12/2024	USD	8.0%	25,000,000
Golomt Financial Group (III)	27/07/2023	MNT	13.5%	12,000,000

Subordinated loan from Golomt Financial Group (I)

The Bank received a USD 10 million 5-year subordinated loan from Credit Suisse AG, Singapore Branch in 2007. The loan was matured on 19 December 2012, at which date the loan was not repaid or converted into shares.

On 31 December 2013, the Amendment Agreement was signed between Golomt Bank and Bodi International LLC, the main shareholder of the Bank at that time, on transfer of Credit Suisse loan to Bodi International LLC. Accordingly, the transfer certificate was signed by Credit Suisse AG, Singapore Branch, Bodi International LLC and Golomt Bank on 8 January 2014. Bodi International LLC, the main shareholder of the Bank purchased the loan from Credit Suisse on 27 December 2013.

28 Subordinated Debt (continued)

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

The principal terms are given below:

(a) The loan bears interest at 8% per annum.
(b) The loan shall be repaid in full with the accrued interest on 31 December 2023.

Following the transfer of the Bank's ownership to Golomt Financial Group, on 7 July 2014, the subordinated loan was transferred to Golomt Financial Group, the new main shareholder of the Bank. On 30 September 2016 an Amendment Agreement was signed between Golomt Bank and Golomt Financial Group LLC to extend the maturity and as well as interest rate of the subordinated loan. Interest rate of the subordinated loan increased from 6.0% p.a. to 8.0% p.a., while maturity has been extended from 31 December 2018 to 31 December 2023.

Subordinated loan from Golomt Financial Group (II)

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

- The loan bears interest at 4.5% above 3 months LIBOR, payable quarterly;
- Stanhope Investments has the option at any time during the loan life to convert the loan into new ordinary shares at a predefined strike (exercise) price.
- Stanhope Investments has right to request immediate repayment of the full amount of the debt, if certain financial and non-financial covenants were breached.

On 30 April 2014, a transfer certificate was signed by Stanhope Investments, Golomt Bank and Bodi International LLC. Bodi International LLC, the main shareholder of the Bank, purchased the loan from Stanhope Investments. Both debt covenants and conversion option were waived through the agreement signed by Golomt Bank and Bodi International LLC. Following the transfer of the Bank's ownership to Golomt Financial Group, on 7 July 2014, the subordinated loan was transferred to Golomt Financial Group, a new main shareholder of the Bank.

The subordinated loan was matured on 8 June 2015 and the Amendment Agreement was signed between Golomt Bank and Golomt Financial Group LLC to extend the maturity date to 8 December 2020. On 30 September 2016 an Amendment Agreement was signed between Golomt Bank and Golomt Financial Group LLC to extend the maturity and as well as change interest rate of the subordinated loan. Interest rate of the subordinated loan increased from 5.1% p.a. to 8.0% p.a., while maturity has been extended from 8 December 2020 to 8 December 2024.

Subordinated loan from Golomt Financial Group (III)

The Bank received a subordinated loan in the amount of MNT 12,000,000 thousand with maturity of 6 years from Golomt Financial Group LLC during 2017. The loan bears interest rate of 13.5% p.a. and is convertible into ordinary shares at the maturity. The new subordinated loan has certain covenants and there were no breach in the covenants as at 31 December 2017.

None of the other subordinated debt agreements had financial or other covenants as of 31 December 2017 and 31 December 2016. Information on related party balances is disclosed in Note 43.

29 Share Capital

In thousands of Mongolian Tugriks except for number of shares	**Number of out-standing shares**	**Ordinary shares**	**Share pre-mium**	**Preference shares**	**Total**
At 1 January 2016	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**
At 31 December 2016	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**
At 31 December 2017	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**

The nominal registered amount of the Bank's issued share capital is MNT 26,367,593 thousand (2016: MNT 26,367,593 thousand).

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

Ordinary shares

The total authorised number of ordinary shares is 26,367,593 shares (31 December 2015: 26,367,593 shares), with a par value of MNT 1,000 per share (2015: MNT 1,000 per share). All issued ordinary shares are fully paid.

1,300,000 fully paid shares of the Bank of MNT 1,000 each were transferred from Trafigura Beheer B.V to Golomt Investment Co., Ltd during 2017.

The shareholders of the Bank as of 31 December 2017 and 31 December 2016 and the percentages of ownership are as follows:

Shareholder	**2017**	**2016**
	Ownership (%)	**Ownership (%)**
Golomt Financial Group Co.,Ltd	83.76%	83.76%
Swiss-Mo Investment A.G	9.98%	9.98%
Trafigura Beheer B.V	-	4.93%
Golomt Investment Co.,Ltd	4.93%	-
ESOP	1.33%	1.33%
Total	**100%**	**100%**

Preferred shares

Mr. Zorigt, a business partner of Mr. Bayasgalan, agreed to purchase the preferred shares of Golomt Bank on 22 December 2013 in accordance with the shareholder's resolution on issuance of preferred shares dated 19 December 2013.

Under this agreement, total investment to preferred shares of the Bank amounts to USD 15 million which should be made in two instalments (USD 10 million due by 25 December 2013 and USD 5 million due by 25 December 2014). As of 31 December 2017, total preferred shares amount to USD 15,000,000, which is equivalent to MNT 25,778,900 thousand divided into 25,778,900 preferred shares.

30 Interest Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	**2017**	**2016**	**2017**	**2016**
Interest income				
Loans and advances to customers	293,489,976	261,336,134	293,489,976	261,336,134
Debt securities at fair value through profit or loss and available for sale	46,040,736	20,684,079	46,040,736	20,684,079
Short-term investment securities	41,123,291	23,621,571	41,123,291	23,621,571
Investments held to maturity	12,892,817	15,870,152	12,619,867	15,662,474
Cash and balances with central bank	12,417,998	9,387,860	12,417,998	9,387,860
Due from other banks	3,156,025	867,077	3,155,790	867,077
Reverse repurchase agreements	372,197	340,315	372,197	340,315
Total interest income	**409,493,040**	**332,107,188**	**409,219,855**	**331,899,510**
Interest expense				
Customer accounts	(230,559,406)	(193,233,346)	(230,561,263)	(193,237,793)
Other borrowed funds	(36,996,420)	(38,531,051)	(36,996,420)	(38,531,051)
Subordinated loans	(7,626,284)	(6,085,952)	(7,626,284)	(6,085,952)
Due to other banks	(8,568,659)	(5,148,134)	(8,568,659)	(5,148,134)
Repurchase agreements	(3,476,881)	(3,412,605)	(3,476,881)	(3,412,605)
Total interest expense	**(287,227,650)**	**(246,411,088)**	**(287,229,507)**	**(246,415,535)**
Net interest income	**122,265,390**	**85,696,100**	**121,990,348**	**85,483,975**

The increase in the interest income from loan and advances to customers is due to increased amount of loans disbursed to customers in 2017. Further, interest income from cash and balances with central bank includes MNT 11,403,260 thousand (2016: MNT 9,149,482 thousand), which relates to interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all Mongolian banks, as the Bank maintained the required level of mandatory reserve during 2017.

Interest income includes approximately MNT 8.7 billion (2016: MNT 10.1 billion) of interest income, recognised on impaired loans to customers. Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2017 and 2016 in accordance with IFRS requirements.

31 Fee and Commission Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	**2017**	**2016**	**2017**	**2016**
Fee and commission income				
Commissions on operations with plastic cards	19,476,085	13,014,091	19,476,085	13,014,092
Remittance and other service fees	8,572,030	7,192,124	8,572,030	7,135,876
Account service fee and commissions	3,887,024	3,370,834	3,888,233	3,367,956
Commissions on documentary business and guarantees	3,336,650	3,494,876	3,336,650	3,494,876
Brokerage and other service fee	1,421,753	1,369,102	377,126	969,566
Total fee and commission income	**36,693,542**	**28,441,027**	**35,650,124**	**27,982,366**
Fee and commission expense				
Card transaction expense	(7,338,953)	(5,753,370)	(7,338,954)	(5,753,370)
Bank service expense	(2,244,096)	(1,686,488)	(1,891,041)	(1,596,299)
Online transaction expense	(382,746)	(259,157)	(382,746)	(259,157)
Brokerage and other service fee	(208,391)		(196,044)	-
Total fee and commission expense	**(10,174,186)**	**(7,699,015)**	**(9,808,785)**	**(7,608,826)**
Net fee and commission income	**26,519,356**	**20,742,012**	**25,841,339**	**20,373,540**

The increase within fee and commission income from operations with plastic cards and the fee and commission expenses increase for card transaction are due to expanded card related business activities during 2017.

32 Other Operating Income

		Group		Bank	
In thousands of Mongolian Tugriks	**Note**	**2017**	**2016**	**2017**	**2016**
Income from repayment of loans which were written off		1,266,457	943,167	1,266,457	943,167
Gain on remeasurement of investment properties	16	527,707		527,707	-
Gain or loss on disposal of premises and equipment		13,351	42,174	12,751	42,174
Other		(276,131)	411,695	(288,752)	406,382
Total other operating income		**1,531,384**	**1,397,036**	**1,518,163**	**1,391,723**

33 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Group 2017	Group 2016	Bank 2017	Bank 2016
Staff costs	31,003,901	30,908,674	30,642,006	30,747,704
Administrative expenses	16,140,317	9,659,404	16,039,618	9,615,557
Professional fees	11,402,091	7,560,235	11,397,691	7,555,529
Depreciation of premises and equipment	8,775,951	9,669,168	8,762,817	9,661,972
Rental of premises	5,934,566	5,786,325	5,893,526	5,733,987
Advertising and marketing services	3,027,679	2,133,614	3,023,768	2,127,745
Loan collection expenses	1,794,054	1,790,959	1,794,054	1,790,959
Amortization of software and intangible assets	1,621,165	2,845,311	1,619,599	2,845,311
Taxes (other than income tax)	1,419,818	1,408,834	1,419,818	1,408,834
Transportation	916,014	895,116	914,492	894,489
Travelling expenses	842,978	742,586	835,269	721,410
Utilities	661,618	614,482	660,965	600,641
Entertainment	542,240	478,315	539,310	478,315
Voluntary and mandatory insurance	426,250	466,151	425,830	466,151
Property, plant and equipment written-off	45,225	17,209	45,225	17,209
Donations	1,000	164,600	1,000	164,600
Other	1,595,262	2,427,760	1,568,456	2,420,880
Total administrative and other operating expenses	**86,150,129**	**77,568,744**	**85,583,444**	**77,251,293**

In thousands of Mongolian Tugriks	Group 2017	Group 2016	Bank 2017	Bank 2016
Staff costs consist of:				
Salaries, wages and bonus	27,157,431	26,834,382	26,827,803	26,691,584
Contribution to social and health fund	2,847,888	2,880,108	2,815,622	2,864,401
Staff benefits	459,188	620,815	459,188	620,815
Staff training	650,223	419,222	650,223	416,757
Pension fund	(110,830)	154,147	(110,830)	154,147
Total staff costs	**31,003,900**	**30,908,674**	**30,642,006**	**30,747,704**

34 Income Taxes

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

In thousands of Mongolian Tugriks	Group 2017	Group 2016	Bank 2017	Bank 2016
Current income tax charge	6,053,994	-	6,035,112	-
Deferred income tax charge/(credit)	(12,965,193)	7,471,460	(12,965,193)	7,472,658
Income tax expense/(credit) for the year	**(6,911,199)**	**7,471,460**	**(6,930,081)**	**7,472,658**

The Bank provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 3 billion (2016: MNT 3 billion) of taxable income, and 25% (2016: 25%) on the excess of taxable income over MNT 3 billion (2016: MNT 3 billion) in accordance with Mongolian tax legislation.

34 Income tax (continued)

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

In thousands of Mongolian Tugriks	Group 2017	Group 2016	Bank 2017	Bank 2016
Profit before tax	**(12,238,502)**	**13,059,208**	**(12,082,935)**	**12,746,219**
Theoretical tax charge at statutory rate (2017: 25%; 2016: 25%)	(3,059,626)	3,264,802	(3,020,733)	3,186,555
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Effect of income subject to lower rate	(450,000)	(450,000)	(450,000)	(450,000)
- Income which is exempt from taxation	(912,990)	(269,435)	(912,990)	(268,373)
- Non-deductible expenses	1,482,350	2,612,450	1,482,350	2,610,943
- Income on government securities (exempt from taxation)	(11,329,720)	(5,408,961)	(11,329,720)	(5,359,677)
- Unrecognised tax loss carry forwards	7,301,012	7,753,210	7,301,012	7,753,210
- Other	57,773	(30,606)	-	-
Income tax expense/(credit) for the year	**(6,911,201)**	**7,471,460**	**(6,930,081)**	**7,472,658**

The non-deductible expenses in 2017 relates to entertainment, reception and training expenses not supported by documents. Further, income from government securities which is tax exempt per Mongolian legislation has increased in 2017 due to higher volume of government bond transactions compared to 2016.

The tax effect of the movements in these temporary differences in 2017 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	1 January 2017	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2017
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	(13,323,282)	2,808,295	-	(10,514,987)
Financial assets at fair value through profit and loss (changes in fair value of shares)	302,601	(401,939)	-	(99,338)
Fair value changes of financial instruments available for sale	(1,606,796)	-	(11,836,946)	(13,443,742)
Fair value changes of derivative financial instruments	(20,290,007)	11,471,642	-	(8,818,365)
Prepaid income – loan origination fee	1,291,950	240,930	-	1,532,880
Loan and advances to customers - difference between BoM and IFRS provision	(1,221,508)	7,523,966	-	6,302,458
Impairment of buildings	-	5,039,406	-	5,039,406
Tax loss carry forward	24,511,500	(13,786,123)	-	10,725,377
Others	(343,776)	69,016	-	(274,760)
Net deferred tax liability	**(10,679,318)**	**12,965,193**	**(11,836,946)**	**(9,551,071)**

34 Income tax (continued)

The tax effect of the movements in these temporary differences in 2016 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	1 January 2016	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2016
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	(5,143,512)	(8,179,770)	-	(13,323,282)
Financial assets at fair value through profit and loss (changes in fair value of shares)	1,036,375	(733,774)	-	302,601
Fair value changes of financial instruments available for sale	(1,473,130)	-	(133,666)	(1,606,796)
Fair value changes of derivative financial instruments	(10,051,754)	(10,238,253)	-	(20,290,007)
Prepaid income – loan origination fee	1,045,622	246,328	-	1,291,950
Loan and advances to customers - difference between BoM and IFRS provision	11,495,335	(12,716,843)	-	(1,221,508)
Tax loss carry forward	-	24,511,500	-	24,511,500
Others	18,070	(361,846)	-	(343,776)
Net deferred tax liability	**(3,072,994)**	**(7,472,658)**	**(133,666)**	**(10,679,318)**

In thousands of Mongolian Tugriks	2017	2016
Tax loss carry-forwards expiring by the end of:		
- 31 December 2018	10,725,377	24,511,500
Total tax loss carry forwards	**10,725,377**	**24,511,500**

35 Other Comprehensive Income Recognised in Each Component of Equity

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

In thousands of Mongolian Tugriks	2017	2016
Changes in:		
- fair value of available for sale investment securities, including repossessed financial collateral	47,347,785	534,662
- fair value of premises and equipment	(5,242,377)	2,738,497
Income tax recorded directly in other comprehensive income	(11,836,946)	(295,339)
Other comprehensive income	**30,268,462**	**2,977,820**

As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

36 Net Debt Reconciliation

The table below sets out an analysis of the Group's debt and movements for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Borrowed funds**	**Borrowings from other banks**	**Subordinated debt**	**Total**
Net debt at 31 December 2016	**698,035,920**	**497,834,077**	**87,733,803**	**1,283,603,800**
Cash flows	(137,170,646)	(217,673,734)	11,151,533	(343,692,847)
Non cash transactions	(74,142,400)	-	-	(74,142,400)
Foreign exchange adjustments	(5,770,756)	(3,215,138)	(1,842,522)	(10,828,416)
Net debt at 31 December 2017	**480,952,118**	**276,945,205**	**97,042,814**	**854,940,137**

37 Financial Risk Management

The Bank's risk management function is carried out in respect of financial risks, operational risk, compliance risk, counterparty and third party risk, legal risk, reputational risk, technology risk as well as other risks that emerge from time to time. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objective of the financial risk management function is to keep an appropriate balance between risk and reward within the bank's Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS) which are approved, supported and promoted by the Board of Governors.

RAF and RAS of the bank identify risk boundaries within which management is expected to operate when pursuing the bank's business strategy. It sets high level boundaries of various risk categories from which more detailed risk limits are derived based upon specific policies for specific activities. The RAF and RAS are dynamic by nature and reviewed, where necessary, at least once per annum in conjunction with the Annual Strategic Plan of the Bank. Such interaction ensures a consistent alignment of risk and strategy including the Bank's capital requirements.

37 Financial Risk Management (continued)

The Board of Governors acknowledges that one of its primary objectives is to explicitly enforce the collective oversight and risk governance responsibilities. An important element of this objective is to emphasize key components of risk governance such as risk culture, risk appetite boundaries and their relationship to the Bank's risk capacity as well as overall checks & balances. The Board of Governors adopts a "Three lines of defence" model in risk governance, where management is the first line of defence, the Risk management committee and the Chief risk officer are the second line of defence and Internal audit is the third line of defence.

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

Monitoring and controlling risks are primarily performed based on limits established by the relevant committees of the Bank. These limits reflect the business strategy and market environment of the bank as well as level of risk that the bank is willing to accept. As part of its overall risk management, the Bank uses stress testing analysis to manage exposures resulting from possible changes in interest rate, exchange rates and other price risks.

Credit risk

The risk of default on a debt that may arise from a borrower failing to make required payments is called credit risk. Credit risk falls into two genres which are default risk and concentration risk.

Default risk

Risk management division's credit risk management department controls if the business units operations are within risk appetite and credit policy. It also improves procedures on regular basis and controls the procedure's implementations, and plays an important role on pricing the product. The Bank makes a stress test coordinated with economic conditions. Also, the Bank controls and manages the risk by forecasting the credit portfolio quality based on bank's historical data researches and analyses and rates the risk.

Credit portfolio risk is rated regularly based on international standards. The Bank is preparing to conduct Basel III references, and IFRS 9 standards. Every term, credit risk department presents credit portfolio quality, credit policy implementation, and future presumed arising risks to the Risk Management committee. Also, it provides loan reports to the executive management and supports the activity on decision making process.

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

The Group's maximum exposure to credit risk is primarily reflected in the carrying amount of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities, as described in Note 37, Risk Management.

37 Financial Risk Management (continued)

Market risk

Market risk is defined as the risk that value will be lost due to a change in some market variable, such as commodity, equity, interest rate or foreign exchange rates and other financial instrument prices (including derivatives), and general market volatility. The market risk of a derivatives position may arise from a change in the value of the underlying or from other sources such as implied volatility or time decay. The Bank establishes limits for the key metrics of the market risk exposure specifically in respect of:

- Market risk - trading and currency risk
- Interest rate risk in the banking book
- Funding & Liquidity risk
- Syndication/Underwriting & Equity risk

Risk tolerances for the Bank's activities in financial markets are moderate level and are outlined in related policies. The Risk Management Committee of the Board establishes annual risk strategy statement, which sets an overall limit for market risk and sub-limits for sectors and instruments. The Asset and Liability Committee (ALCO) monitors market risk exposure within the parameters set by the Risk Management Committee through a review of interest rate and currency exchange rate exposures, and identifies current events and forecasts future developments that could have a material adverse impact upon the Bank's operations and financial condition.

The Director of the Treasury Division manages the day-to-day market risk by monitoring the Bank's asset composition, investment instruments and categories, hedging transaction within approved counterparty limits, in each case as directed per the policies and procedures approved by the Risk Management Committee, the Board of Directors and ALCO. Risk Management Division is mainly responsible for the market risk management and reports directly to the Chief Executive Officer and operates under the ongoing oversight and supervision of the ALCO.

Currency risk

Currency risk arises when a bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. The Group and the Bank take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Any unhedged position in a particular currency gives rise to foreign exchange risk.

The Board of Governors sets risk appetite on the level of risk within the foreign exchange portfolio such as unhedged position limit and total portfolio "Value-at-risk" limit. The ALCO of the Bank develops foreign currency trading limits of specific branches in accordance with the Board approved higher level foreign currency risk appetite.

The Bank measures its foreign currency unhedged position risk by using "Value at risk" model. Within specific confidence level, the highest potential risks resulting from foreign currency fluctuation are estimated based on three different types of "VaR" methodology, namely variance-covariance, historical and Monte Carlo simulation method. Measurement periods of one and ten trading days are used in VaR analysis and results are verified by an automated daily programme of back-testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with the Bank of Mongolia's regulations and results in a confidence level of 99.0 per cent. In addition to VaR methodology, the bank also conducts recurrent stress testing to identify potential losses in excess of the projected VaR.

The Bank uses the following hedging techniques in foreign currency risk management, such as:

- Matching foreign currency assets & liabilities to certain extent
- Hedging using derivatives such as foreign currency swaps and forward contracts
- Diversifying foreign currency portfolio based on marginal VaR and component VaR results

37 Financial Risk Management (continued)

Currency risk (continued)

Indirect currency risk resulting in NPL increase is the issued loans denominated in foreign currencies and depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Mongolian Tugriks may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses. The share of loans that are exposed to currency risk has certain risk limit which is regularly updated depending on the market situation and the Bank's business plan.

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2017. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	82,579,103	71,083,834	39,397,876	29,290,765	**222,351,578**
Mandatory cash balances with the Bank of Mongolia	237,782,285	88,158,473	-	69,088,531	**395,029,289**
Financial assets at fair value through profit or loss	206,066,525	42,469,803	-	540,016	**249,076,344**
Due from other banks	384,257	519,804,206	13,018,053	59,097,887	**592,304,403**
Loans and advances to customers	1,779,255,738	491,404,797	15,836,395	31,561,272	**2,318,058,202**
Short-term investment securities	632,003,148	-	-	-	**632,003,148**
Investment securities available for sale	211,758,135	-	57,378	6,801,475	**218,616,988**
Investment securities held to maturity	144,822,457	-	-	-	**144,822,457**
Repossessed financial assets	44,660,926	-	-	-	**44,660,926**
Other financial assets	22,151,616	2,097,782	59,836	87,831	**24,397,065**
Total monetary financial assets	3,361,464,190	1,215,018,896	68,369,537	196,467,777	4,841,320,400
Monetary financial liabilities					
Due to other banks	238,482,421	21,562,660	16,901,019	111,246,133	**388,192,233**
Customer accounts	-	-	-	-	
-Current Accounts	536,470,625	422,022,988	12,053,922	54,460,759	**1,025,008,294**
-Demand Savings	371,607,648	116,590,381	10,222,966	15,840,517	**514,261,512**
-Time Savings	1,321,781,774	568,062,136	13,320,910	11,485,121	**1,914,649,941**
REPO arrangements	47,343,007	-	-	-	**47,343,007**
Other borrowed funds	365,213,958	365,327,322	16,281,217	11,074,826	**757,897,323**
Subordinated debt	12,017,753	85,025,061	-	-	**97,042,814**
Other financial liabilities	33,011,725	13,756,361	365,799	1,496,561	**48,630,446**
Total monetary financial liabilities	2,925,928,911	1,592,346,909	69,145,833	205,603,917	**4,793,025,570**
Derivatives	**(326,259,713)**	**382,310,648**	**-**	**19,415,467**	**75,466,402**
Net balance sheet position	**109,275,566**	**4,982,635**	**(776,296)**	**10,279,327**	**123,761,232**

37 Financial Risk Management (continued)

Currency risk (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2016. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	62,526,270	181,803,360	37,552,013	34,919,549	316,801,192
Mandatory cash balances with the Bank of Mongolia	166,053,150	149,579,945	-	-	315,633,095
Financial assets at fair value through profit or loss	358,339,356	37,038,100	-	45,138	395,422,594
Reverse sale and repurchase agreement	9,995,766	-	-	-	9,995,766
Due from other banks	75,696	705,512,457	12,494,372	74,072,030	792,154,555
Loans and advances to customers	1,710,846,910	308,724,550	4,645,178	10,643,117	2,034,859,755
Short-term investment securities	41,979,911	-	-	-	41,979,911
Investment securities available for sale	119,085,719	-	51,595	7,028,614	126,165,928
Investment securities held to maturity	120,274,349	-	-	-	120,274,349
Repossessed financial asset	44,660,926	-	-	-	44,660,926
Non-Current Assets Classified as Held for Sale	5,049,835	-	-	-	5,049,835
Other financial assets	9,909,931	1,602,244	91,411	579,137	12,182,723
Total monetary financial assets	**2,648,797,819**	**1,384,260,656**	**54,834,569**	**127,287,585**	**4,215,180,629**
Monetary financial liabilities					
Due to other banks	7,928,360	78,119,553	17,018,435	18,835,669	121,902,017
Customer accounts					
-Current Accounts	371,150,294	329,197,842	10,823,065	64,082,691	775,253,892
-Demand Savings	298,843,585	200,098,382	8,668,624	18,947,154	526,557,745
-Time Savings	804,196,487	677,715,125	12,243,995	7,360,316	1,501,515,923
REPO arrangements	37,408,551	-	-	-	37,408,551
Other borrowed funds	593,876,110	588,226,156	5,251,559	8,516,172	1,195,869,997
Subordinated debt	-	87,733,803	-	-	87,733,803
Other financial liabilities	23,542,684	6,322,557	837,439	651,198	31,353,878
Total monetary financial liabilities	**2,136,946,071**	**1,967,413,418**	**54,843,117**	**118,393,200**	**4,277,595,806**
Derivatives	**(340,648,831)**	**517,670,452**	**-**	**-**	**177,021,621**
Net balance sheet position	**171,202,917**	**(65,482,310)**	**(8,548)**	**8,894,385**	**114,606,444**

37 Financial Risk Management (continued)

Currency risk (continued)

The following table presents sensitivities on profit or loss and on equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	At 31 December 2017	At 31 December 2016
US Dollar strengthening by 15% (2016 strengthening by 25%)	747,395	5,511,031
US Dollar weakening by 15% (2016 weakening by 25%)	(747,395)	(5,511,031)
Euro strengthening by 15% (2016 strengthening by 20%)	(116,444)	(1,283)
Euro weakening by 15% (2016 weakening by 20%)	116,444	1,283
CNY Chinese Yuan strengthening by 15% (2016 strengthening by 15%)	130,351	(11,824,800)
CNY Chinese Yuan weakening by 15% (2016 weakening by 15%)	(130,351)	11,824,800
HKD Hong Kong Dollar strengthening by 15% (2016 strengthening by 25%)	1,070,320	835,756
HKD Hong Kong Dollar weakening by 15% (2016 weakening by 25%)	(1,070,320)	(835,756)
Other strengthening by 15% (2016 strengthening by 25%)	341,228	12,323,203
Other weakening by 15% (2016 weakening by 25%)	(341,228)	(12,323,203)

Interest rate risk

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

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. The bank manages interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods are used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, the bank manages and minimizes risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

The Asset and Liability Committee sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

37 Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2017						
Financial assets	2,529,306,072	557,730,049	603,109,343	906,821,276	319,820,062	**4,916,786,802**
Financial liabilities	2,496,951,328	1,025,011,891	1,023,914,287	145,835,999	101,312,065	**4,793,025,570**
Net interest sensitivity gap at 31 December 2017	**32,354,744**	**(467,281,842)**	**(420,804,944)**	**760,985,277**	**218,507,997**	**123,761,232**
At 31 December 2016						
Financial assets	1,951,575,732	862,695,768	426,504,389	849,661,147	301,765,214	**4,392,202,250**
Financial liabilities	1,875,449,276	1,038,740,100	619,671,791	740,479,600	3,255,039	**4,277,595,806**
Net interest sensitivity gap at 31 December 2016	**76,126,456**	**(176,044,332)**	**(193,167,402)**	**109,181,547**	**298,510,175**	**114,606,444**

The Bank is exposed to interest rate risk due to net interest rate sensitivity gap due to significantly higher interest bearing assets compared to interest bearing liabilities. If interest rates at 31 December 2017 had been 10% higher/(lower) with all other variables held constant, the financial result for 2017 and the total equity would have been MNT 12,376,123 thousand higher/(lower) (2016: MNT 11,460,645 thousand higher/(lower)), mainly as a result of high net interest sensitivity gap and changes interest rates during 2017.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2017, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 12,376,040 thousand higher/(lower) (2016: MNT 8,548,398 thousand higher/(lower)).

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

37 Financial Risk Management (continued)

Interest rate risk (continued)

	2017				2016			
In % p.a.	MNT	USD	Euro	Other	MNT	USD	Euro	Other
Assets								
Mandatory reserves at Bank of Mongolia	4.5%	-	-	-	6.5%	-	-	-
Due from other banks	8.0%	4.8%	3.0%	-	8.0%	-	6.7%	-
Loans and advances to customers	16.8%	11.9%	8.3%	11.8%	14.9%	11.8%	0.3%	9.4%
Short-term investment securities	11.0%	-	-	-	14.2%	-	-	-
Investment securities held to maturity	10.4%	-	-	-	10.2%	-	-	-
Liabilities								
Due to other banks	11.7%	0.0%	2.0%	2.5%	14.0%	6.0%	3.3%	5.9%
Customer accounts								
- Current/settlement accounts	2.0%	0.8%	0.6%	0.0%	1.9%	0.9%	0.7%	0.0%
- Demand deposits	9.0%	2.6%	2.2%	1.4%	8.1%	3.1%	1.9%	1.3%
- Time deposits	14.2%	6.1%	3.2%	2.8%	14.5%	6.9%	3.6%	3.0%
Reverse repurchase agreement	9.4%	-	-	-	10.4%	-	-	-
Other borrowed funds	4.2%	2.0%	2.1%	7.0%	4.4%	1.6%	2.1%	4.3%
Subordinated debt	13.5%	8.0%	-	-	-	8.0%	-	-

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

Geographical risk concentration

The Group is exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2017 and 31 December 2016. A major part of the financial liabilities for 31 December 2017 and 31 December 2016 relates to Mongolia. The management believes that the Group's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentrations

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

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

i. The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20 percent of the capital of the Bank;

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

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Notes 12.

37 Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank's liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short- and medium-term payment obligations could be met under normal or stressed conditions. Liquidity management is implemented centrally on a real-time basis by the Treasury Division through all the bank's divisions and branches, in accordance with the forecasts and internal requirements and the director of the Treasury Division is consulted on each major credit decision regarding the impact of credit on overall liquidity position. The Board's Risk management committee sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework to the bank's liquidity risk management. As part of a comprehensive liquidity risk evaluation, the ALCO incorporates and monitors the cumulative effect of the following factors: (i) short- and long-term cash flow management; (ii) maintaining a structurally sound balance sheet; (iii) foreign currency liquidity management; (iv) preserving a diversified funding base; (v) undertaking regular liquidity stress testing; and (vi) maintaining adequate liquidity contingency plans.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Mongolia. The liquidity ratio during the year was as follows:

	2017	**2016**
31st December	44.30%	44.80%
Average during the period	43.42%	39.43%
Highest	44.80%	44.43%
Lowest	41.50%	30.33%

The table below shows the assets and liabilities as at 31 December 2017 and 31 December 2016 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the statement of financial position, which are based on discounted cash flows.

37 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2017 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	222,351,578	-	-	-	-	**222,351,578**
Mandatory cash balances with the Bank of Mongolia	395,029,289	-	-	-	-	**395,029,289**
Financial assets at fair value through profit or loss	43,375,391	95,893,890	122,538,173	-	42,928,932	**304,736,386**
Due from other banks	591,174,943	32,407	1,322,496	-	-	**592,529,846**
Loans and advances to customers	374,882,842	567,564,073	500,268,268	1,165,227,330	357,806,373	**2,965,748,886**
Short-term investment securities	632,691,778	-	-	-	-	**632,691,778**
Investment securities available for sale	218,616,988	-	-	-	-	**218,616,988**
Investment securities held to maturity	-	-	45,469,462	18,082,671	244,086,058	**307,638,191**
Derivative financial instruments-asset						
- inflows	89,850,191	66,435,657	233,282,013	5,597,916	6,560,338	**401,726,115**
- outflows	(71,951,591)	(57,715,085)	(186,048,574)	(6,952,899)	(3,591,564)	**(326,259,713)**
Repossessed financial assets	44,660,926	-	-	-	-	**44,660,926**
Other financial assets	24,397,065	-	-	-	-	**24,397,065**
Total Financial Asset	**2,565,079,400**	**672,210,942**	**716,831,838**	**1,181,955,018**	**647,790,137**	**5,783,867,335**
Liabilities						
Due to other banks	349,658,581	33,214,894	-	6,854,148	-	**389,727,623**
Customer accounts						
-Current Accounts	1,025,008,294	-	-	-	-	**1,025,008,294**
-Demand Savings	514,261,512	-	-	-	-	**514,261,512**
-Time Savings	249,290,577	974,735,899	743,802,810	48,825,908	-	**2,016,655,194**
Other borrowed funds	325,031,625	34,661,708	320,502,448	67,772,063	27,207,992	**775,175,836**
REPO arrangements	25,357,622	-	23,211,507	-	-	**48,569,129**
Subordinated debt	691,723	3,458,615	4,842,061	37,237,759	114,095,485	**160,325,643**
Other financial liabilities	24,489,556	16,337,382	2,022,068	7,061,707	4,166,780	**54,077,493**
Total Financial Liabilities	**2,513,789,490**	**1,062,408,498**	**1,094,380,894**	**167,751,585**	**145,470,257**	**4,983,800,724**
Credit related commitments	**545,869,218**	**-**	**-**	**-**	**-**	**545,869,218**
Guarantee and ILC	271,496,607	-	-	-	-	**271,496,607**
Credit Line undrawn	274,372,611	-	-	-	-	**274,372,611**
Net Gap	**(494,579,308)**	**(390,197,556)**	**(377,549,056)**	**1,014,203,433**	**502,319,880**	**254,197,393**
Accumulated Net Gap	**(494,579,308)**	**(884,776,864)**	**(1,262,325,920)**	**(248,122,487)**	**254,197,393**	**-**

37 Financial Risk Management (continued)
Liquidity risk (continued)
The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2016 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	316,807,727	-	-	-	-	**316,807,727**
Mandatory cash balances with the Bank of Mongolia	315,633,095	-	-	-	-	**315,633,095**
Financial assets at fair value through profit or loss	7,801,772	311,533,000	64,667,100	36,747,940	-	**420,749,812**
Reverse sale and repurchase agreements	10,004,234	-	-	-	-	**10,004,234**
Due from other banks	792,149,433	30,677	-	-	-	**792,180,110**
Loans and advances to customers	268,585,986	497,622,590	405,893,684	938,812,129	465,244,433	**2,576,158,822**
Short-term investment securities	42,000,000	-	-	-	-	**42,000,000**
Investment securities available for sale	126,165,928	-	-	-	-	**126,165,928**
Investment securities held to maturity	6,274,791	-	-	47,090,432	209,522,293	**262,887,516**
Derivative financial instruments-asset						
- inflows	34,983,498	336,579,404	-	236,472,808	-	**608,035,710**
- outflows	(26,228,050)	(248,585,770)	-	(156,200,269)	-	**(431,014,089)**
Repossessed financial assets	44,660,926	-	-	-	-	**44,660,926**
Non-Current Assets Classified as Held for Sale	5,049,835	-	-	-	-	**5,049,835**
Other financial assets	12,182,723	-	-	-	-	**12,182,723**
Total Financial Asset	**1,956,071,898**	**897,179,901**	**470,560,784**	**1,102,923,040**	**674,766,726**	**5,101,502,349**
Liabilities						
Due to other banks	104,081,618	18,352,217	-	-	-	**122,433,835**
Customer accounts						
-Current Accounts	775,253,892	-	-	-	-	**775,253,892**
-Demand Savings	526,557,746	-	-	-	-	**526,557,746**
-Time Savings	218,219,260	688,603,346	600,842,912	67,678,151	-	**1,575,343,669**
Other borrowed funds	150,143,144	386,569,221	91,047,893	578,551,804	960,945	**1,207,273,007**
REPO arrangements	15,424,170	-	-	24,843,425	-	**40,267,595**
Subordinated debt	600,253	3,485,342	4,979,060	132,161,986	-	**141,226,641**
Other financial liabilities	26,014,719	270,411	346,493	3,543,257	5,286,196	**35,461,076**
Total Financial Liabilities	**1,816,294,802**	**1,097,280,537**	**697,216,358**	**806,778,623**	**6,247,141**	**4,423,817,461**
Credit related commitments	**320,829,812**	-	-	-	-	**320,829,812**
Guarantee and ILC	182,076,448	-	-	-	-	**182,076,448**
Credit Line undrawn	138,753,364	-	-	-	-	**138,753,364**
Net Gap	**(181,052,716)**	**(200,100,636)**	**(226,655,574)**	**296,144,417**	**668,519,585**	**356,855,076**
Accumulated Net Gap	**(181,052,716)**	**(381,153,352)**	**(607,808,926)**	**(311,664,509)**	**356,855,076**	**-**

37 Financial Risk Management (continued)

Liquidity risk (continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2017. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	222,351,578	-	-	-	-	**222,351,578**
Mandatory cash balances with the Bank of Mongolia	395,029,289	-	-	-	-	**395,029,289**
Financial assets at fair value through profit or loss	43,359,345	92,270,976	112,947,175	-	498,848	**249,076,344**
Due from other banks	590,978,203	31,729	1,294,471	-	-	**592,304,403**
Loans and advances to customers	340,010,930	456,706,772	398,873,239	894,239,302	228,227,959	**2,318,058,202**
Short-term investment securities	632,003,148	-	-	-	-	**632,003,148**
Investment securities available for sale	218,616,988	-	-	-	-	**218,616,988**
Investment securities held to maturity	-	-	42,761,019	13,936,957	88,124,481	**144,822,457**
Derivative financial instruments-asset						
- inflows	89,850,191	66,435,657	233,282,013	5,597,916	6,560,338	**401,726,115**
- outflows	(71,951,591)	(57,715,085)	(186,048,574)	(6,952,899)	(3,591,564)	**(326,259,713)**
Repossessed financial assets	44,660,926	-	-	-	-	**44,660,926**
Other financial assets	24,397,065	-	-	-	-	**24,397,065**
Total Financial Assets	**2,529,306,072**	**557,730,049**	**603,109,343**	**906,821,276**	**319,820,062**	**4,916,786,802**
Liabilities						
Due to other banks	349,273,147	32,919,076	-	6,000,010	-	**388,192,233**
Customer Deposits						
-Current Accounts	1,025,008,294	-	-	-	-	**1,025,008,294**
-Demand Savings	514,261,512	-	-	-	-	**514,261,512**
-Time Savings	248,355,801	941,955,322	682,841,113	41,497,705	-	**1,914,649,941**
Other borrowed funds	310,328,088	34,240,328	317,602,926	94,256,741	1,469,240	**757,897,323**
REPO arrangements	25,324,925	-	22,018,082	-	-	**47,343,007**
Subordinated debt	17,753	75,511	-	-	96,949,550	**97,042,814**
Other financial liabilities	24,381,808	15,821,654	1,452,166	4,081,543	2,893,275	**48,630,446**
Total Financial Liabilities	**2,496,951,328**	**1,025,011,891**	**1,023,914,287**	**145,835,999**	**101,312,065**	**4,793,025,570**
Liquidity gap arising from financial instruments	**32,354,744**	**(467,281,842)**	**(420,804,944)**	**760,985,277**	**218,507,997**	**123,761,232**
Accumulated Net Gap	**32,354,744**	**(434,927,098)**	**(855,732,042)**	**(94,746,765)**	**123,761,232**	**-**

37 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments of the Bank at 31 December 2016 is disclosed below. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	316,801,192	-	-	-	-	**316,801,192**
Mandatory cash balances with the Bank of Mongolia	315,633,095	-	-	-	-	**315,633,095**
Financial assets at fair value through profit or loss	7,801,772	300,173,993	59,375,770	28,071,059	-	**395,422,594**
Reverse sale and repurchase agreements	9,995,766					**9,995,766**
Due from other banks	792,124,555	30,000	-	-	-	**792,154,555**
Loans and advances to customers	264,170,800	474,498,141	367,128,619	700,635,181	228,427,014	**2,034,859,755**
Short-term investment securities	41,979,911	-	-	-	-	**41,979,911**
Investment securities available for sale	126,165,928	-	-	-	-	**126,165,928**
Investment securities held to maturity	6,253,781	-	-	40,682,368	73,338,200	**120,274,349**
Derivative financial instruments-asset						
- inflows	34,983,498	336,579,404	-	236,472,808	-	**608,035,710**
- outflows	(26,228,050)	(248,585,770)	-	(156,200,269)	-	**(431,014,089)**
Repossessed financial assets	44,660,926	-	-	-	-	**44,660,926**
Non-Current Assets Classified as Held for Sale Financial asset	5,049,835	-	-	-	-	**5,049,835**
Other financial assets	12,182,723	-	-	-	-	**12,182,723**
Total Financial Assets	**1,951,575,732**	**862,695,768**	**426,504,389**	**849,661,147**	**301,765,214**	**4,392,202,250**
Liabilities						
Due to other banks	104,004,017	17,898,000	-	-	-	**121,902,017**
Customer Deposits						
-Current Accounts	775,253,892	-	-	-	-	**775,253,892**
-Demand Savings	526,557,746	-	-	-	-	**526,557,746**
-Time Savings	275,259,778	636,146,463	532,234,112	57,875,569	-	**1,501,515,922**
Other borrowed funds	152,402,164	384,438,047	87,127,999	571,023,255	878,532	**1,195,869,997**
REPO arrangements	15,408,551	-	-	22,000,000	-	**37,408,551**
Subordinated debt	600,253	-	-	87,133,550	-	**87,733,803**
Other financial liabilities	25,962,875	257,590	309,680	2,447,226	2,376,507	**31,353,878**
Total Financial Liabilities	**1,875,449,276**	**1,038,740,100**	**619,671,791**	**740,479,600**	**3,255,039**	**4,277,595,806**
Liquidity gap arising from financial instruments	**76,126,456**	**(176,044,332)**	**(193,167,402)**	**109,181,547**	**298,510,175**	**114,606,444**
Accumulated Net Gap	**76,126,456**	**(99,917,876)**	**(293,085,278)**	**(183,903,731)**	**114,606,444**	**-**

37 Financial Risk Management (continued)

Liquidity risk (continued)

As of 31 December 2017 the Bank has breached 2 covenants, open credit exposure ratio and non-performing loans ratio, related to borrowings from World Business Capital and Export Development Canada in the amount of MNT 1,187,406 thousands and in the amount of MNT 17,560,810 thousands respectively. Therefore, the Bank requested waiver letters from those 2 borrowers, however the waiver letters have not been received as of 31 December 2017. In accordance with IFRS, management has classified the total amount of these borrowings in the category "On demand and less than one month". The Management is confident that waivers will be received in the nearest future. Therefore management is of the opinion that from the above amounts, only the amount of MNT 39,746 thousand should be classified as “on demand and less than one month”, the amount of MNT 1,186,342 thousand should be classified as “From 12 months to 5 years” and the amount of MNT 17,522,128 thousand should be classified in the category of “More than 5 year” in the above table. There were no breaches of covenants as of 31 December 2016.

As the above analysis is based on expected maturity, the entire portfolio of financial assets available for sale is categorised as “Demand and less than 1 month” in accordance with the portfolio liquidity assessment by the management.

In the opinion of the Group’s management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Group. It is unusual for the banks ever to be completely matched since business transaction is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Group does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

38 Management of Capital

The Bank’s capital management has the following objectives: to observe the capital requirements established by the Central Bank, namely the requirements of the deposit insurance system; to maintain the Bank’s operations as a going concern and to maintain its capital base at the level necessary to ensure a 14% (2016:14%) capital adequacy ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chief Financial Officer of the Bank.

The Bank is keen on maintaining the necessary capital level in order to preserve the confidence of creditors, investors and the market as a whole as well as to develop the future activity of the Bank. In accordance with the current capital requirements set by the Central Bank, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level.

38 Management of Capital (continued)

The table below shows the regulatory capital structure based on the Bank's reports prepared in accordance with the requirements of the Bank of Mongolia legislation:

	31 December 2017	31 December 2016
Core capital ratio	9.45%	10.19%
Risk weighted capital ratio	14.41%	14.77%

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Tier I capital		
Ordinary shares	26,367,593	26,367,593
Share premium	46,583,557	46,583,557
Retained earnings	218,533,692	240,438,730
Other components of equity	30,132,163	358,212
Less: Investment in financial institutions 75%	(9,163,369)	(9,163,369)
Total Tier I Capital	**312,453,636**	**304,584,723**
Tier II capital		
Subordinated loans	96,949,550	87,133,550
Preferred shares	25,778,900	25,778,900
Revaluation fund	3,961,907	9,644,867
Other reserves	40,331,226	17,401,574
Less: Investment in financial institutions 25%	(3,054,456)	(3,054,456)
Total Tier II Capital	**164,003,520**	**136,904,435**
Total capital/capital base	**476,457,156**	**441,489,158**

Investment in financial institutions relate to investment in shares of financial institutions, which are disclosed as investments available for sale in Note 14 and 17.

The equity capital of the Group amounted to MNT 392,074,736 thousand as of 31 December 2017 (31 December 2016: MNT 367,133,577 thousand).

The Group and the Bank have complied with all externally imposed capital requirements throughout 2017 and 2016.

As disclosed in Note 39, as part of IMF program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review. As of the date of approval of these financial statement, final results of the AQR and stress testing are pending, and the financial impact resulting from this AQR and stress test on the Bank's financial statements cannot be reasonably estimated at present. As a result, no adjustments related to AQR have been recognised in these financial statements. Consequently, capital adequacy ratios disclosed in these financial statements are not adjusted for AQR results. For more detailed information on the status of AQR and its implications, refer to Note 39.

39 Contingencies and Commitments

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

In 2014, auditors from the Authority for Fair Competition and Consumer Protection released a report revealing that commercial banks violated the law by charging loan origination fee. However, the commercial banks won the dispute in the Court of First Instance. In 2016 the Authority for Fair Competition and Consumer Protection filed an appeal to the Supreme Court and the Supreme Court denied the appeal in resolution no. 138 dated 18 April 2016.

As of 31 December 2017, there are no litigations filed against commercial banks in the Supreme Court by the Authority for Fair Competition and Consumer Protection. Based on the assessment of the Bank's legal advisors, management believes that there is no further possibility of this government institution raising the claim against commercial banks and concluded that no provision is necessary in the statement of financial position.

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

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

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

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

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

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 25, there were no breaches of covenants, except for two ratios described in Note 25, that would require immediate repayment of the borrowings as of 31 December 2017.

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

39 Contingencies and Commitments (continued)

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

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

In thousands of Mongolian Tugriks	**31 December 2017**	**31 December 2016**
Financial guarantees issued	105,122,056	80,711,003
Performance guarantees issued	126,176,645	76,038,947
Letters of credit	40,871,181	26,119,570
Undrawn credit lines and credit cards	274,372,611	138,753,364
Less: provision for credit related commitments	(673,275)	(793,072)
Total credit related commitments	**545,869,218**	**320,829,812**

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

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Please refer to Note 4.35 for accounting policy of performance guarantee.

As of 31 December 2017, management concluded that provision for credit related commitments in the amount of MNT 673,275 thousand (31 December 2016: MNT 793,072 thousand) is necessary, based on all available information using its best estimate of losses incurred and the probability of their occurrence after analysing financial conditions of the Bank's customers.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 395,029,289 thousand as of 31 December 2017 (31 December 2016: MNT 315,633,095 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

As of 31 December 2017, Bank of Mongolia treasury bills in amount of MNT 25,291,700 thousand (31 December 2016: MNT 15,390,500 thousand) (Note 13) and DBM promissory notes in amount of MNT 22,000,000 thousand (31 December 2016: MNT 22,000,000 thousand) (Note 15) were collateralized by the Bank of Mongolia under REPO arrangement (Note 26).

Correspondent accounts with other banks include current account of USD 100,000 thousand (31 December 2016: USD 200,000 thousand) with foreign banks, pledged as collateral for the loans obtained from foreign banks (refer to Note 11 and Note 25).

Asset Quality Review of Mongolian banking sector. On 24 May 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility for Mongolia to support the country's economic reform program.

39 Contingencies and Commitments (continued)

The total financing package amounts to approximately $5.5 billion, including support from the Asian Development Bank, the World Bank, Japan, Korea and China. One of the pillars of the program is a comprehensive effort to rehabilitate the banking system and strengthen the Bank of Mongolia. As part of the program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review (AQR). The AQR was performed predominantly based on version 2 of the European Central Bank's AQR Manual, as localized by the Bank of Mongolia in several areas. Preliminary summary results were provided to each commercial bank in January 2018.

Following the AQR, the Bank of Mongolia plans to perform stress tests under varying macro-economic scenarios and assumptions, as well as to perform follow up supervisory inspections of each bank during which recent developments in the banks' financial status will be assessed as a follow up to the preliminary AQR results. The stress tests and AQR are planned to be completed by 31 March 2018, following which the results and related implications on the banks' capital are expected to be informed to the commercial banks.

As at the date of approval of these financial statements, AQR process (including stress testing) is ongoing and no requirement to adjust regulatory capital has been made by the BOM. As a result, the full implications of the assessment on the Mongolian financial sector and for the Bank specifically are as yet unclear. This creates a significant uncertainty in market, regulatory, credit and other risks including related implications for capital adequacy, and in the Bank's future exposure to such risks. Consequently, the financial impact resulting from this AQR and stress tests on the Bank's financial statements cannot be reasonably estimated at this time, therefore no adjustments for this matter have been recognized in these financial statements.

Based on all information available to management, any potential adjustment resulting from AQR process is expected to be required to be made to the regulatory capital and the Bank's assets during 2018. If new capital injection is required after the above mentioned adjustment is made it will be needed by 31 December 2018.

40 Derivative Financial Instruments

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

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

40 Derivative Financial Instruments (continued)

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

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	75,624,570	177,021,621
- Financial liabilities at fair value through profit or loss	(158,168)	-
Foreign exchange forwards and swaps, net fair value	**75,466,402**	**177,021,621**

In thousands of Mongolian Tugriks	31 December 2017	31 December 2016
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	385,806,956	517,670,452
- USD payable on settlement (-)	(3,496,308)	-
- MNT receivable on settlement (+)	3,499,084	-
- MNT payable on settlement (-)	(329,758,797)	(340,648,831)
- Other currencies receivable on settlement (+)	19,415,467	-
- Other currencies receivable on settlement (-)	-	-
Net fair value of foreign exchange forwards and swaps	**75,466,402**	**177,021,621**

Derivative financial instruments in amount of MNT 75,466,402 thousand are related to unrealized gain from long-term and short-term swaps and are classified as financial assets held for trading.

Financial assets of MNT 47,695,568 thousand as at 31 December 2017 (31 December 2016: MNT 142,724,280 thousand) relate to a long-term forward foreign currency exchange contract with the Bank of Mongolia entered on 19 July 2016 maturing on 9 July 2018. Fair value increase during the period of MNT 54,321,290 thousand (2016: MNT 85,519,943 thousand) relates to abovementioned long term swaps. Remaining amount of gains relates to short-term swaps.

41 Fair Value Disclosures

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

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

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

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

	2017				2016			
In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets								
Financial assets at fair value through profit or loss	249,076,344	-	-	**249,076,344**	395,422,594	-	-	**395,422,594**
-Debt	234,686,513		-	**234,686,513**	388,269,111	-	-	**388,269,111**
-Equity	14,389,831		-	**14,389,831**	7,153,483	-	-	**7,153,484**
Investment securities available for sale	101,474,901	-	117,142,087	**218,616,988**	56,620,658	-	69,545,270	**126,165,928**
-Debt	-	-	47,624,997	**47,624,997**	-	-	-	**-**
-Equity	101,474,901	-	69,517,090	**170,991,991**	56,620,658	-	69,545,270	**126,165,928**
Repossessed collateral	-	-	44,660,926	**44,660,926**	-	-	44,660,926	**44,660,926**
Other financial assets								
Financial derivatives	-	75,466,402	-	**75,466,402**	-	177,021,621	-	**177,021,621**
Non-financial assets								
Premises	-	-	116,837,207	**116,837,207**	-	-	145,025,692	**145,025,692**
Investment properties	-	-	57,505,587	**57,505,587**	-	-	51,291,334	**51,291,334**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**350,551,245**	**75,466,402**	**291,484,881**	**717,502,528**	**452,043,253**	**177,021,621**	**265,091,277**	**894,156,150**

41 Fair Value Disclosures (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017 and 31 December 2016:

In thousands of Mongolian Tugriks	**2017 Fair value**	**2016 Fair value**	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	75,466,402	177,021,621	Interest rate parity analysis	Inter-bank rates of each currency
Total recurring fair value measurements at level 2	**75,466,402**	**177,021,621**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2017 and 31 December 2016.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017:

<u>Financial assets</u>

Investment securities available for sale, which are classified as level 1 for fair value measurement purposes, mostly relate to the Bank's investment in a joint stock company established in Mongolia in the amount of MNT 101,474,901 thousand (31 December 2016: MNT 56,073,539 thousand), refer to Note 14. The Company is listed in the Mongolian Stock exchange.

Investment securities available for sale, which are classified as level 3 for fair value measurement purposes, mostly relate to the Bank's investment in the investment units of the first investment fund established in Mongolia in the amount of MNT 58,000,000 thousand (refer to the Notes 3 and 14) apart from investment in MIK in amount of MNT 11,017,825 thousand (2016: MNT 11,017,825 thousand) which is disclosed in the table above. As this investment was made at the price available to other third-parties and there were no substantial changes in the Fund's operations since the purchase, management believes that this investment was purchased at market price and that the fair value of this investment as of 31 December 2017 and 31 December 2016 approximates its carrying value. For management's judgments on investment in this fund, refer to Note 3. Management believes that the fair value of remaining unquoted investments in available for sale investment securities is unlikely to be materially different from their carrying value as of 31 December 2017 and that current disclosures are sufficient from the perspective of the users of financial statements.

Investment in MIK were fair valued at the end of the reporting period using residual income valuation at the weighted average cost of capital of the Bank.

If the market price of available for sale investment securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 6,917,091 thousand (2016: MNT 6,954,527 thousand).

Repossessed financial assets, which are classified as level 3 for fair value measurement purposes, relate to the shares in a company (refer to Note 21) acquired in the process of settlement of overdue loans. Fair value of the shares were determined using fair value of assets and liabilities of the entity, which was determined using market comparable approach and discounted future cash flow approach.

If the market price of repossessed financial assets, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 1,488,697 thousand (2016: MNT 4,466,093 thousand).

41 Fair Value Disclosures (continued)

Non-financial assets at 31 December 2017:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq.m)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value						
Non-financial assets						
Premises	116,837,207	Income capitalisation	Market rental prices with appropriate adjustments, discounts/haircuts	25 - 79	10%	14,223,721
Investment properties	57,505,587	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	133 - 3,712	10%	5,750,559
Total recurring fair value measurements at level 3	**174,342,794**					**19,974,280**

Non-financial assets at 31 December 2016:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq.m)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value						
Non-financial assets						
Premises	145,025,692	Income capitalisation, market comparison	Market rental prices with appropriate adjustments, discounts/haircuts	30 – 100 1,000 – 4,500	10%	14,502,569
Investment properties	51,291,334	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	260-5,500	10%	5,129,133
Total recurring fair value measurements at level 3	**213,761,450**					**21,376,144**

There were no changes in valuation technique for level 3 recurring fair value measurements during the years ended 31 December 2017 and 31 December 2016. There were no movements in and out of the categories during the years ended 31 December 2017 and 31 December 2016.

41 Fair Value Disclosures (continued)

(b) Non-recurring fair value measurements

The Group has written down its non-current assets held for sale to fair value less costs to sell. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement at 31 December 2017.

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq.m)
Non-current assets held for sale	52,556,417	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	365 - 5,679

The valuation technique and inputs used in the fair value measurement at 31 December 2016.

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq.m
Non-current assets held for sale	17,444,423	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	508 - 4,900

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

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

41 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2017 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**111,445,070**	**110,906,508**	**-**	**222,351,578**
Cash on hand	111,445,070	-	-	111,445,070
Current account with the central bank	-	110,906,508	-	110,906,508
Mandatory cash balances with the Bank of Mongolia	**-**	**395,029,289**	**-**	**395,029,289**
Reverse sale and repurchase agreement	**-**	**-**	**-**	**-**
Due from other banks	**-**	**592,304,403**	**-**	**592,304,403**
Correspondent accounts with other banks				
Domestic	-	36,363,256	-	36,363,256
Foreign	-	469,924,422	-	469,924,422
Short-term placements with other banks	**-**	**-**	**-**	
Domestic	-	22,383,105	-	22,383,105
Placements with other banks with original maturities of more than three months	**-**	**63,633,620**	**-**	63,633,620
Loans and advances to customers	**-**	**-**	**2,409,706,581**	**2,318,058,202**
Corporate loans	-	-	1,056,073,508	1,013,959,132
Loans to small and medium business	-	-	537,612,360	497,239,864
Consumer loans to individuals	-	-	466,914,615	462,790,317
Mortgage loans to individuals	-	-	349,106,098	344,068,889
Investment securities held to maturity	**-**	**144,822,457**	**-**	**144,822,457**
Other financial assets	**-**	**24,397,065**	**-**	**24,397,065**
Total financial assets carried at amortized cost	**111,445,070**	**1,267,459,722**	**2,409,706,581**	**3,696,962,994**

41 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2016 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**101,095,187**	**215,706,005**	**-**	**316,801,192**
Cash on hand	101,095,187	-		101,095,187
Current account with the central bank	-	215,706,005	-	215,706,005
Mandatory cash balances with the Bank of Mongolia	**-**	**315,633,095**	**-**	**5,633,095**
Reverse sale and repurchase agreement	**-**	**9,995,766**	**-**	**9,995,766**
Due from other banks	**-**	**792,154,555**	**-**	**792,154,555**
Correspondent accounts with other banks				
Domestic	-	11,734,532	-	11,734,532
Foreign	-	742,682,084	-	742,682,084
Short-term placements with other banks				
Domestic	-	37,706,210	-	37,706,210
Placements with other banks with original maturities of more than three months	**-**	31,729	**-**	31,729
Loans and advances to customers	**-**	**-**	**2,007,105,462**	**2,034,859,755**
Corporate loans	-	-	956,135,154	925,725,223
Loans to small and medium business	-	-	530,299,755	511,840,116
Consumer loans to individuals	-	-	255,350,468	251,753,510
Mortgage loans to individuals	-	-	265,320,085	345,540,906
Investment securities held to maturity	**-**	**120,274,349**	**-**	**120,274,349**
Other financial assets	**-**	**12,182,722**	**-**	**12,182,722**
Total financial assets carried at amortized cost	**101,095,187**	**1,465,946,492**	**2,007,105,462**	**3,601,901,434**

41 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2017 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**388,192,233**	**-**	**388,192,233**
Short-term placements of other banks	-	255,246,082	-	255,246,082
Long-term placement of other banks	-	132,946,151	-	132,946,151
REPO Agreements				
Sale and repurchase agreements with other banks	-	47,343,007	-	47,343,007
Customer Accounts				
State and public organisations	**-**	**270,738,748**	**-**	**270,681,877**
- Current/settlement accounts	-	207,265,363	-	207,265,363
- Demand deposits	-	45,518,223	-	45,518,223
- Term deposits	-	17,955,162		17,898,291
Legal entities	**-**	**912,552,349**	**-**	**910,722,982**
- Current/settlement accounts	-	637,507,527	-	637,507,527
- Demand deposits	-	50,754,191	-	50,754,191
- Term deposits	-	224,290,631	-	222,461,264
Individuals	**-**	**2,243,987,354**	**-**	**2,233,766,425**
- Current/demand accounts	-	153,633,973	-	153,633,973
- Demand deposits	-	417,543,390	-	417,543,390
- Term deposits	-	1,672,809,991	-	1,662,589,062
Other	**-**	**38,860,205**	**-**	**38,748,463**
- Current/demand accounts	-	26,601,431	-	26,601,431
- Demand deposits	-	445,708	-	445,708
- Term deposits	-	11,813,066	-	11,701,324
Other borrowed funds	**-**	**757,897,323**	**-**	**757,897,323**
Provision for credit related commitment	**-**	**673,275**	**-**	**673,275**
Subordinated debt	**-**	**97,042,814**	**-**	**97,042,814**
Other financial liabilities	**-**	**48,630,446**	**-**	**48,630,446**
Total financial liabilities carried at amortized cost	**-**	**4,758,574,747**	**-**	**4,746,355,838**

41 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2016 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**121,902,017**	-	**121,902,017**
Short-term placements of other banks	-	103,933,499	-	103,933,499
Long-term placement of other banks	-	17,968,518	-	17,968,518
REPO Agreements				
Sale and repurchase agreements with other banks	-	37,408,551	-	37,408,551
Customer Accounts				
State and public organisations	**-**	**185,407,663**	-	**185,378,977**
- Current/settlement accounts	-	109,749,345	-	109,749,345
- Demand deposits	-	58,278,383	-	58,278,383
- Term deposits	-	17,379,935		17,351,249
Legal entities	-	**735,941,418**	-	**734,864,915**
- Current/settlement accounts	-	532,683,609	-	532,683,609
- Demand deposits	-	60,294,309	-	60,294,309
- Term deposits	-	142,963,499	-	141,886,997
Individuals	-	**1,859,327,886**	-	**1,850,288,410**
- Current/demand accounts	-	112,950,055	-	112,950,055
- Demand deposits	-	407,064,810	-	407,064,810
- Term deposits	-	1,339,313,022	-	1,330,273,545
Other	-	**32,801,871**	-	**32,795,258**
- Current/demand accounts	-	19,870,884	-	19,870,884
- Demand deposits	-	920,243	-	920,243
- Term deposits	-	12,010,743	-	12,004,131
Other borrowed funds	-	**1,195,869,997**	-	**1,195,869,997**
Contingent liability	-	**793,072**	-	**793,072**
Subordinated debt	-	**87,733,803**	-	**87,733,803**
Other financial liabilities	-	**31,353,879**	-	**31,353,879**
Total financial liabilities carried at amortized cost	**-**	**4,288,540,157**	**-**	**4,278,388,879**

42 Presentation of Financial Instruments by Measurement Category

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

Held to maturity presentation class includes 1) loans and receivables and 2) held to maturity measurement classes. Thus, certain held-to-maturity investment securities disclosed in Note 15 (government bonds and treasury bills) are treated as loans and receivables and are disclosed as such in the table below.

42 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL	Trading assets	Held to maturity	Total
Financial assets						
Cash and balances with central bank (other than mandatory reserve)	**222,351,578**	**-**	**-**	**-**	**-**	**222,351,578**
Cash on hand	111,445,070	-	-	-	-	111,445,070
Current account with the central bank	110,906,508	-	-	-	-	110,906,508
Mandatory cash balances with the Bank of Mongolia	395,029,289	-	-	-	-	**395,029,289**
Financial assets at fair value through profit or loss	-	**-**	**249,076,344**	**-**	**-**	**249,076,344**
Reverse sale and repurchase agreement	-	**-**	**-**	**-**	**-**	**-**
Due from other banks	**592,304,403**	**-**	**-**	**-**	**-**	**592,304,403**
Correspondent accounts with other banks						
Domestic	36,363,256	-	-	-	-	36,363,256
Foreign	469,924,422	-	-	-	-	469,924,422
Short-term placements with other banks				**-**		
Domestic	22,383,105	-	-	-	-	22,383,105
Placements with other banks with maturities of more than three months	63,633,620	-	-	-	-	63,633,620
Loans and advances to customers	**2,318,058,203**	**-**	**-**	**-**	**-**	**2,318,058,203**
Corporate loans	1,013,959,132	-	-	-	-	1,013,959,132
Loans to small and medium business	497,239,865	-	-	-	-	497,239,865
Consumer loans to individuals	462,790,317	-	-	-	-	462,790,317
Mortgage loans to individuals	344,068,889	-	-	-	-	344,068,889
Short-term investment securities	632,003,148	**-**	**-**	**-**	**-**	**632,003,148**
Investment securities available for sale	**-**	**218,616,988**	**-**	**-**	**-**	**218,616,988**
Investment securities held to maturity	61,415,269	**-**	**-**	**-**	**83,407,188**	**144,822,457**
Derivative financial instruments	-	**-**	**-**	**75,466,402**	**-**	**75,466,402**
Repossessed financial asset	-	**44,660,926**	**-**	**-**	**-**	**44,660,926**
Other financial assets:	24,397,065	**-**	**-**	**-**	**-**	**24,397,065**
Receivables on cash and settlements services	7,890,670	-	-	-	-	7,890,670
Receivable from companies	9,627,664	-	-	-	-	9,627,664
Receivable from individuals	426,874	-	-	-	-	426,874
Other	6,451,857	-	-	-	-	6,451,857
Total Financial Assets	**3,613,555,807**	**263,277,914**	**249,076,344**	**75,466,402**	**83,407,188**	**4,916,786,803**

42 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2016:

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL	Trading assets	Held to maturity	Total
Financial assets						
Cash and balances with central bank (other than mandatory reserve)	**316,801,192**	**-**	**-**	**-**	**-**	**316,801,192**
Cash on hand	101,095,187	-	-	-	-	101,095,187
Current account with the central bank	215,706,005	-	-	-	-	215,706,005
Mandatory cash balances with the Bank of Mongolia	**315,633,095**	-	-	-	-	**315,633,095**
Financial assets at fair value through profit or loss	**-**	**-**	**395,422,594**	**-**	**-**	**395,422,594**
Reverse sale and repurchase agreement	**9,995,766**	**-**	**-**	**-**	**-**	**9,995,766**
Due from other banks	**792,154,555**	**-**	**-**	**-**	**-**	**792,154,555**
Correspondent accounts with other banks						
Domestic	11,734,532	-	-	-	-	11,734,532
Foreign	742,682,084	-	-	-	-	742,682,084
Short-term placements with other banks				**-**		
Domestic	37,706,210	-	-	-	-	37,706,210
Placements with other banks with maturities of more than three months	31,729	-	-	-	-	31,729
Loans and advances to customers	**2,034,859,755**	**-**	**-**	**-**	**-**	**2,034,859,755**
Corporate loans	925,725,223	-	-	-	-	925,725,223
Loans to small and medium business	511,840,116	-	-	-	-	511,840,116
Consumer loans to individuals	251,753,510	-	-	-	-	251,753,510
Mortgage loans to individuals	345,540,906	-	-	-	-	345,540,906
Short-term investment securities	**41,979,911**	**-**	**-**	**-**	**-**	**41,979,911**
Investment securities available for sale	**-**	**126,165,928**	**-**	**-**	**-**	**126,165,928**
Investment securities held to maturity	**50,628,223**	**-**	**-**	**-**	**69,646,126**	**120,274,349**
Derivative financial instruments	**-**	**-**	**-**	**177,021,621**	**-**	**177,021,621**
Repossessed financial asset	-	**44,660,926**	**-**	**-**	**-**	**44,660,926**
Other financial assets:	**12,182,723**	**-**	**-**	**-**	**-**	**12,182,723**
Receivables on cash and settlements services	6,787,747	-	-	-	-	6,787,747
Receivable from companies	1,646,405	-	-	-	-	1,646,405
Receivable from individuals	33,177	-	-	-	-	33,177
Other	3,715,394	-	-	-	-	3,715,394
Total Financial Assets	**3,574,235,220**	**170,826,854**	**395,422,594**	**177,021,621**	**69,646,126**	**4,387,152,415**

As of 31 December 2017 and 31 December 2016, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

43 Related Party Transactions

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

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

Related party categories are as follows:

Immediate parent company	Golomt Financial Group LLC is the main shareholder of the Bank, refer to Note 1.
Subsidiary	The bank owns 100% shares of Golomt Capital LLC, refer to Note 17.
Entities under common control	Entities under common control are companies within Golomt Financial Group LLC and other companies the ultimate owner has control or significant influence.
Directors and key management personnel	The Board of Directors and executive managers of the Bank

For information on the Bank’s immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2017 and 31 December 2016, refer to Note 1.

43 Related Party Transactions (continued)

At 31 December 2017, the outstanding balances the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 23.4%)	1,812,242	-	-	81,942,998	**83,755,240**
Investment in subsidiaries	-	-	1,200,000	-	**1,200,000**
Derivative financial instrument (notional amount: MNT 84,949,550)	-	22,571,597	-	-	**22,571,597**
Customer accounts (contractual interest rate 0% - 16.1%)	1,752,642	1,149,647	252,290	1,744,955	**4,899,534**
Subordinated debts (contractual interest rate 8% - 13.5%)	-	97,042,814	-	-	**97,042,814**

At 31 December 2016, the outstanding balances with the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 22.8%)	1,866,169	-	-	86,321,599	**88,187,768**
Investment in subsidiaries	-	-	1,200,000		**1,200,000**
Derivative financial instrument (notional amount: MNT 87,133,550)	-	25,480,221	-	-	**25,480,221**
Customer accounts (contractual interest rate 0% - 15.2%)	1,115,313	654,546	1,231,030	786,364	**3,787,253**
Subordinated debts (contractual interest rate 8%)	-	87,133,550	-	-	**87,133,550**

43 Related Party Transactions (continued)

Movement in the loans and advances to the Bank's related party at 31 December 2017 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Contractual interest rate	6%-23.4%	n/a	n/a	3%-22.8%	
Loans to customers					
Loans to customers as at 1 January (gross)	1,866,169	-	-	86,321,599	**88,187,768**
Loans to customers issued during the year	1,807,872	-	-	33,574,246	**35,382,118**
Loans to customers repaid during the year	(1,854,169)	-	-	(38,387,299)	**(40,241,468)**
Exchange difference	(7,630)	-	-	434,452	**426,822**
Loans to customers as at 31 December (gross)	**1,812,242**	-	-		**83,755,240**

Movement in the loans and advances to the Bank's related party at 31 December 2016 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Contractual interest rate	6%-23.4%	N/A	N/A	0%-22.8%	N/A
Loans to customers					
Loans to customers as at 1 January (gross)	3,598,719	-	-	71,798,457	**75,397,177**
Loans to customers issued during the year	1,429,881	-	-	153,704,720	**155,134,601**
Loans to customers repaid during the year	(3,162,432)	-	-	(147,237,727)	**(150,400,159)**
Exchange difference	-	-	-	8,056,149	**8,056,149**
Loans to customers as at 31 December (gross)	**1,866,169**	**-**	**-**	**86,321,600**	**88,187,768**

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 31 December 2017 and 31 December 2016, as management believes that such provision is not necessary.

43 Related Party Transactions (continued)

Loans issued to key management are issued at preferential rates, as it is the case with loans issued to the Bank's employees (refer to Note 18). The terms offered to key management are not substantially different from those offered to other employees.

The customer accounts balances at the year end and transactions with the Bank's related parties for 2017 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Contractual interest rate	**0%-16.1%**	**0%-3%**	**0%-3.6%**	**0%-15.6%%**	
Customer accounts					
Customer accounts as at 01 January 2017	1,115,313	654,546	1,231,030	786,364	**3,787,253**
Customer accounts received during the year	13,708,853	87,476,133	19,946,027	236,739,431	**357,870,444**
Customer accounts repaid during the year	(13,049,651)	(86,951,136)	(20,906,953)	(235,770,376)	**(356,678,116)**
Exchange difference	(21,873)	(29,895)	(17,814)	(10,464)	**(80,046)**
Customer accounts as at 31 December 2017	**1,752,642**	**1,149,648**	**252,290**	**1,744,955**	**4,899,535**

The customer accounts balances at the year end and transactions with the Bank's related parties for 2016 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Subsidiary	Entities under common control	Total
Contractual interest rate	**0%-15.2%**	**0%-1.2%**	**0%-3.6%**	**0%-15.6%**	
Customer accounts					
Customer accounts as at 01 January 2016	826,292	280,795	34,978	876,729	**2,018,794**
Customer accounts received during the year	9,816,321	25,043,709	16,403,948	605,574,335	**656,838,313**
Customer accounts repaid during the year	(9,686,938)	(24,860,689)	(15,249,014)	(605,765,589)	**(655,562,230)**
Exchange difference	159,638	190,731	41,118	100,889	**492,375**
Customer accounts as at 31 December 2016	**1,115,313**	**654,546**	**1,231,030**	**786,364**	**3,787,253**

43 Related Party Transactions (continued)

The income and expense items with the Bank's related parties for the year ended 31 December 2017 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Interest income	175,757	-	-	11,234,724	**11,410,481**
Interest expense	91,686	7,948,704	1,857	41,445	**8,082,474**
Fee and commission income	2,252	1,710	2,545	3,703	**10,210**

The income and expense items with the Bank's related parties for the year ended 31 December 2016 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Interest income	123,940	-	-	9,146,268	**9,270,208**
Interest expense	95,889	6,088,249	1,069	33,264	**6,218,471**
Fee and commission income	5,816	413	3,534	15,038	**24,802**

43 Related Party Transactions (continued)

Cost of services received by the Bank from its related parties as of the year ended 31 December 2017 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Construction in progress	-	-	10,462	-	**10,462**

Cost of services received by the Bank from its related parties as of the year ended 31 December 2016 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Construction in progress	-	-	-	3,000,000	**3,000,000**

The bank's sale of properties, plant and equipment to its related parties during 2017 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Construction in progress	-	-	-	12,853,572	**12,853,572**
Office equipment and computers	-	-	9,660	-	**9,660**

The bank's sale of properties, plant and equipment to its related parties during 2017 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Subsidiary**	**Entities under common control**	**Total**
Construction in progress	-	-	-	-	**-**

The outstanding balance of the guarantee issued for the Bank's related parties at the year-end is as follows:

In thousands of Mongolian Tugriks	**2017**	**2016**
Guarantee		
Bank guarantees as at 01 January	13,124	21,065
Guarantees issued / exchange revaluation	-	11,000
Guarantee closed	(13,124)	(18,941)
Bank guarantees as at 31 December	**-**	**13,124**

43 Related Party Transactions (continued)

The Bank's key Board of Directors and management compensation is presented below:

In thousands of Mongolian Tugriks	2017	2016
Salaries	2,283,903	1,738,758
Bonuses	61,665	104,870
Social security contributions	258,012	202,799
TOTAL	**2,603,580**	**2,046,427**

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

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

There is no other material related party transactions at the Group level which would have disclosed additionally if Group related party disclosure was presented separately.

44 Events after the End of the Reporting Period

On 18 January 2018, Moody's has upgraded the government of Mongolia's ratings to B3 from Caa1.

On 26 March 2018, policy rate reduced by 1% to 10% and reserve requirements on domestic and foreign currency liabilities was set at 10.5% and 12%, respectively.

The Bank's parent company Golomt Financial Group LLC has proposed to invest into the Bank's share capital the amount of MNT 75 billion, which has been approved by the Board of Governors as of 28 March 2018. As of the date of approval of these financial statements, the process of getting the necessary approvals from regulators is ongoing.

As of date of this report, the Bank has not amended its charter in relation to the transfer of shares between Trafigura Beheer B.V and Golomt Investment Co.,Ltd.As of date of this report, the Bank has obtained all the necessary approvals in relation to the transfer of shares between Trafigura Beheer B.V and Golomt Investment Co.,Ltd and in the process of amending the certificate with the State Registration.

Management is not aware of any other events that occurred after the end of reporting period until 30 March 2018, which would have impact on these financial statements.