GOLOMT BANK

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

31 December 2018

CONTENTS

GOLOMT BANK LLC

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.
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.

Board of Governors	Ch.Munkhtsetseg	*Chairwoman*
	Urs E. Schwarzenbach	*Member*
	D.Munkhtur	*Member*
	J.Unenbat	*Independent Member*
	López Abelló	*Independent Member*
	James B. Dwyer	*Independent Member*
Executive Officers	U.Ganzorig	*Chief Executive Officer*
	G.Ganbold	*President*
	Tomas Bravenec	*Deputy CEO*
	T.Nyamsuren	*Deputy CEO*
	Ch.Davaadash	*Deputy CEO*
	M.Chimegmunkh	*Director of Financial Management Division*
	A.Enkhbayar	*Director of Risk Management Division*
	B.Bayartbileg	*Director of Credit Division*
	T.Batzul	*Director of Business Development Division*
	Yo.Purevbat	*Director of Operations Division*
	N.Tumendemberel	*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*
	M.Narankhuu	*Director of Business Process Management*

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

Independent Auditor's Report

To the Shareholders and Board of Directors of Golomt Bank LLC

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Golomt Bank LLC (the "Bank") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the 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 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 Bank 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.

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

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

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Responsibilities of management and those charged with governance for the financial statements (continued)

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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:

Shaukat Tapia
Director
PricewaterhouseCoopers Audit LLC

Ulaanbaatar, Mongolia
29 March 2019

Golomt Bank LLC
Statement of Financial Position

In thousands of Mongolian Tugriks	Note	31 December 2018	31 December 2017
Assets			
Cash and balances with central bank (other than mandatory reserve)	7	658,075,005	222,351,578
Mandatory cash balances with the Bank of Mongolia	8	455,072,892	395,029,289
Financial assets at fair value through profit or loss	9	-	249,076,344
Reverse sale and repurchase agreement	10	99,975,351	-
Due from other banks	11	586,137,792	592,304,403
Investments in debt securities	12	518,942,058	-
Investments in equity securities	13	105,693,688	-
Loans and advances to customers	14	3,183,723,744	2,318,058,202
Investment securities available for sale	16	-	218,616,988
Short-term investment securities	15	-	632,003,148
Investment securities held to maturity	17	-	144,822,457
Investment properties	18	34,293,822	57,505,587
Investment in subsidiary	19	-	1,200,000
Derivative financial instruments	44	125,352,711	75,466,402
Other assets	20	44,826,731	44,330,748
Intangible assets	21	14,250,326	13,616,825
Premises and equipment	22	130,090,247	140,555,122
Repossessed collateral	23	89,901,317	47,090,786
Non-current assets classified as held for sale	24	34,777,089	52,556,417
Total assets		**6,081,112,773**	**5,204,584,296**
Liabilities			
Due to other banks	25	148,766,727	388,192,233
Customer accounts	26	4,402,648,347	3,453,919,747
Other borrowed funds	27	715,852,783	757,897,323
REPO arrangements	28	151,343,018	47,343,007
Current income tax liability		4,950,542	6,035,111
Deferred income tax liability	36	5,306,666	9,551,071
Provision for credit related commitment	43	3,399,224	673,275
Other liabilities	29	43,186,884	52,240,676
Subordinated debt	30	92,582,956	97,042,814
Total liabilities		**5,568,037,147**	**4,812,895,257**
Equity			
Preferred shares	31	75,778,900	25,778,900
Share capital	31	32,321,857	26,367,593
Share premium	31	127,629,293	46,583,557
Retained earnings		202,842,670	218,533,691
Other reserves		74,502,906	74,425,298
Total equity		**513,075,626**	**391,689,039**
Total liabilities and equity		**6,081,112,773**	**5,204,584,296**

Approved for issue and signed on behalf of the Bank's management on 29 March 2019.

CH. MUNKHTSETSEG
Chairwoman, Board of Governors

G.GANBOLD
President

M. CHIMEGMUNKH
Chief Financial Officer

The notes set out on pages 7 to 139 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**2018**	**2017**
Interest income	32	463,853,291	409,219,855
Other similar income	32	30,107,637	-
Interest expense	32	(323,255,156)	(287,229,507)
Net interest income		**170,705,772**	**121,990,348**
Credit loss allowance	14	(66,150,713)	(33,411,559)
Net interest income after credit loss allowance		**104,555,059**	**88,578,789**
Fee and commission income	33	47,389,265	35,650,124
Fee and commission expense	33	(12,323,356)	(9,808,785)
Losses less gains from financial assets at fair value through profit or loss		(6,339,847)	3,370,866
Gains less losses from financial derivatives	40	93,418,196	(65,296,303)
Gains less losses from trading in foreign currencies and precious metals		15,736,921	16,979,721
Gains less losses from disposals of investment securities available for sale		-	1,877,287
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition		(1,293,892)	-
Reversal of expected credit loss allowance of debt securities at amortised cost		1,069,763	-
Impairment of debt securities at fair value through other comprehensive income		(793,026)	-
Losses on initial recognition of assets at rates below market	14	(16,943,013)	-
Foreign exchange translation gains less losses		(19,049,921)	21,033,400
Provision charge for other assets	20	(2,666,983)	(167,175)
Impairment charge for buildings	22	(26,600,000)	(20,157,623)
Provision charge for repossessed collateral	23	(6,546,401)	286,172
Reversal of provision for credit related commitment		393,454	119,797
Losses less gains from investment properties	18	(3,023,845)	527,707
Gains less losses from non-current asset held for sale	24	1,920,631	(3,774,036)
Dividend received		1,823,177	3,290,112
Other operating income and expenses	34	14,966,586	990,456
Administrative and other operating expenses	35	(110,092,968)	(85,583,444)
Profit/(Loss) before tax		**75,599,800**	**(12,082,935)**
Income tax expense/(credit)	36	(22,053,560)	6,930,081
Profit/(loss) for the year		**53,546,240**	**(5,152,854)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investment:			
Gains less losses arising during the year		-	47,347,785
Income tax recorded directly in other comprehensive income		-	(11,836,946)
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income		(10,222,176)	-
Revaluation of premises and equipment		3,000,000	(5,242,377)
Income tax recorded directly in other comprehensive income		2,555,544	-
Other comprehensive income	37	**(4,666,632)**	**30,268,462**
Total comprehensive income for the year		**48,879,608**	**25,115,608**

In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
		Attributable to owners of the Bank								
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**
Profit 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 premises		-	-	-	-	-	(440,582)	-	440,582	**-**
Transfer from regulatory reserve to retained earnings		-	-	-	-	-	-	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**
Adoption of IFRS 9:										
- remeasurement for expected credit losses, net of tax	5	-	-	-	-	-	-	-	(55,832,933)	(55,832,933)
- reclassification and remeasurement of financial assets, net of tax	5	-	-	-	(40,331,226)	(1,431,363)	-	-	41,762,589	-
Restated balance at 1 January 2018		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**(1,431,363)**	**3,961,909**	**30,132,163**	**204,463,347**	**335,856,106**
Profit for the year		-	-	-	-	-	-	-	53,546,240	**53,546,240**
Other comprehensive income		-	-	-	-	(7,666,632)	3,000,000	-	-	**(4,666,632)**
Total comprehensive income for 2018		**-**	**-**	**-**	**-**	**(7,666,632)**	**3,000,000**	**-**	**53,546,240**	**48,879,608**
Share issue		-	5,173,444	69,826,556	-	-	-	-	-	**75,000,000**
Issue of preferred shares		50,000,000	-	-	-	-	-	-	-	**50,000,000**
Conversion of the subordinated loans		-	780,820	11,219,180	-	-	-	-	-	**12,000,000**
Dividends declared and paid	39	-	-	-	-	-	-	-	(8,660,088)	**(8,660,088)**
Transfer of revaluation surplus on premises		-	-	-	-	-	(106,667)	-	106,667	-
Transfer to regulatory reserve		-	-	-	-	-	-	46,613,496	(46,613,496)	-
Balance at 31 December 2018		**75,778,900**	**32,321,857**	**127,629,293**	**-**	**(9,097,995)**	**6,855,242**	**76,745,659**	**202,842,670**	**513,075,626**

The notes set out on pages 7 to 139 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**2018**	**2017**
Cash flows from operating activities			
Profit/(loss) before tax		**75,599,800**	**(12,082,935)**
Adjustments to:			
Credit loss allowance	14	66,150,713	33,411,559
Losses less gains from financial assets at fair value through profit or loss		7,132,873	(3,370,866)
Gains less losses from financial derivatives	44	(93,418,196)	65,296,303
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition		1,293,892	-
Impairment of debt securities at fair value through other comprehensive income		793,026	-
Reversal of expected credit loss allowance of debt securities at amortised cost		(1,069,763)	-
Losses on initial recognition of assets at rates below market		16,943,013	-
Gain less losses from disposals of investment securities available for sale	18	-	(1,877,287)
Gain on disposal of properties	34	2,501,390	(12,751)
Foreign exchange (gains)/losses		19,049,921	(21,033,400)
Provision for other assets	20	2,666,983	167,175
Impairment charge for buildings	22	26,600,000	20,157,623
Reversal of provision for credit related commitment		(393,454)	(119,797)
Losses less gains from investment properties	18	3,023,845	-
Losses less gains from non-current asset held for sale	24	(1,920,631)	3,774,036
Depreciation expense	22	9,757,418	8,762,817
Amortisation expense	21	2,647,120	1,619,599
Property and equipment written off		18,591	58,703
Impairment provision for repossessed collateral	23	6,546,401	(286,172)
Non cash dividend received		(403,294)	(2,763,321)
Interest income	32	(493,960,928)	(409,219,855)
Interest expense	32	323,255,156	287,229,507
Cash flows used in operating activities before changes in operating assets and liabilities		**(27,979,150)**	**(30,289,062)**
(Increase) in mandatory cash balances with the Bank of Mongolia		(60,043,603)	(79,396,194)
(Increase) in due from other banks		(107,077,239)	181,338,414
Decrease in trading securities		-	44,728,636
Decrease in debt securities at fair value true profit or loss		174,529,874	-
Decrease in equity securities at fair value true profit or loss		18,184,576	-
(Increase) in loans and advances		(1,200,251,752)	(503,031,996)
(Increase) in other assets		755,462	(15,748,710)
(Increase)/decrease in repossessed collateral		1,417,442	(6,335,430)
(Increase)/decrease in Non-Current Assets Classified as Held for Sale		12,111,094	15,853,154
(Decrease)/increase in due to banks		(239,425,506)	263,016,245
Increase in customer account		935,753,814	634,219,508
(Decrease)/increase in to other liabilities		(9,053,792)	18,185,078
Net cash used in operating activities before tax and interest		**(501,078,780)**	**522,539,643**
Tax paid		(6,035,111)	6,930,081
Interest received		475,288,525	421,086,080
Interest paid		(323,629,516)	(267,399,930)
Net cash provided used in operating activities		**(355,454,882)**	**683,155,874**

The notes set out on pages 7 to 139 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**2018**	**2017**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(11,354,599,126)	-
Acquisition of equity securities at fair value through other comprehensive income		(75,173,189)	-
Proceeds from disposal of debt securities at fair value through other comprehensive income		11,534,438,662	-
Proceeds from disposal of equity securities at fair value through other comprehensive income		46,317	-
Acquisition of investment securities available for sale		-	(661,083)
Proceeds from disposal of investment securities available for sale		-	4,838,732
Acquisition of investment in debt securities carried at amortised cost		(3,389,776)	-
Proceeds from redemption of debt securities carried at amortised cost		21,480,911	-
Acquisition of investment securities held to maturity		-	(13,611,100)
Proceeds from disposal of investment securities held to maturity		-	3,880,810
Proceeds from disposal or subsidiary, net of disposed cash	19	519,886	-
Acquisition of premises and equipment	22	(15,144,634)	(16,980,199)
Proceeds from disposal of premises and equipment	22	6,664,120	5,423,729
Acquisition of intangible asset	21	(3,217,588)	(1,289,688)
Net cash provided from investing activities		**111,625,583**	**(18,398,799)**
Cash flows from financing activities			
Issue of ordinary shares	31	75,000,000	-
Issue of preference shares	31	50,000,000	-
Proceeds from repo arrangements		2,065,957,687	793,407,576
Repayment of repo arrangements		(1,967,941,450)	(783,473,121)
Proceeds from drawdown of other borrowed funds	27	527,864,616	40,649,559
Repayment of other borrowed funds	27	(453,252,951)	(395,493,939)
Proceeds from subordinated loans	30	-	12,000,000
Repayment of subordinated loans	30	(12,508)	(848,467)
Dividends paid	37	(5,178,170)	-
Net cash provided from financing activities		**292,437,224**	**(333,758,392)**
Effect of exchange rate changes on cash and cash equivalents		(6,732,489)	4,694,525
Net increase in cash and cash equivalent		**41,875,436**	**335,693,208**
Cash and cash equivalents at the beginning of the period		1,140,312,509	804,619,301
Cash and cash equivalents at the end of the period	**7**	**1,182,187,945**	**1,140,312,509**

Refer to Notes 3 and 12 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 4.30, Note 23, Note 24 and Note 18.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2018 for Golomt Bank ("the Bank").

As of 31 December 2018, the Bank's immediate and ultimate parent company is Golomt Financial Group LLC (31 December 2017: 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 the legislation of Mongolia. In 2018, Bodi International LLC (former immediate and ultimate parent of the Bank) purchased 9% of total shares and registered as shareholder.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2018, represents the ultimate controlling party of the Bank as of 31 December 2018 and 31 December 2017.

The Bank's shareholders as of 31 December 2018 and 31 December 2017 are disclosed in Note 31.

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, 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 and custodian banking services from the Financial Regulatory Commission of Mongolia ("FRC") on 2 June 2011 and 27 August 2014 respectively in accordance with the resolution No.163 and No.295 of FRC.

As at 31 December 2018 the Bank had 78 branches within Mongolia (31 December 2017: 70 branches). Also, as at 31 December 2018 the Bank had 25 sub-branches (31 December 2017: 21 sub-branches).

The number of Bank employees as at 31 December 2018 was 2,180 (31 December 2017: 1,901).

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

These financial statements are presented in Mongolian Tugriks ("MNT").

A glossary of various abbreviations used in this document is included in Note 50.

2 Operating Environment of the Bank

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. The Mongolian economy depends strongly on a few mining projects such as Oyu Tolgoi ("OT") and Tavantolgoi. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 42).

In 2016, the Mongolian economy was negatively impacted by low Foreign Direct Investment ("FDI") inflows, currency depreciation, high external debt and political uncertainty, all of which contributed to a decline in gross domestic product. This drop was highly associated with the construction and trade sectors. Mongolia's credit rating was downgraded to B3 in August 2016 and further downgraded to Caa1 in November 2016 by Moody's, followed by Fitch.

In 2017, because of increased capital inflows such as IMF package, the Mongolian government successfully refinanced its USD bonds. Due to rising global commodity price, the balance of payment has decreased and the trade balance improved in 2017.

The latest economic growth figure was 6.2% in the fourth quarter of 2018 increasing from 5.8% in 2017. Higher exports and stable copper price and coal price helped positive GDP growth. The Central Bank (the Bank of Mongolia) indicated to have monetary policy for financial stability.

As a result, Mongolia's credit rating was upgraded to B3 in January 2018 by Moody's, followed by Standard and Poors.

However, there are still certain risks associated with Mongolian economy. Mongolia recorded a 12 percent increase in its total foreign debt during the third quarter of 2018, standing at USD 7.24 billion, compared to third quarter of 2017. Other possible risks are a variety of potential external conditions including Chinese economic slowdown and the fluctuation of major export commodity prices.

The financial market continues to be concentrated and characterised by a few banks. 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.

According to the Bank of Mongolia, 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). Preliminary summary results were provided to each commercial bank in January 2018.

Following the AQR, the Bank of Mongolia announced that they performed supervisory inspections of each bank on the banks' financial status as a follow up to the preliminary AQR results. The inspection was completed in June 2018 and results and related implications on the banks' capital were informed to the commercial banks.

Adjustments and new capital injection to regulatory capital of certain commercial banks resulting from AQR process were required to be completed by the end of 2018. IMF has a view to inspect sources of increase in regulatory capital of these banks.

For the purpose of measurement of expected credit losses ("ECL") the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 41 provides more information of how the Bank incorporated forward-looking information in the ECL models.

2 Operating Environment of the Bank (continued)

2.1 General (continued)

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 2018	2,642.92	3,028.65
31 December 2017	2,427.13	2,897.87
31 December 2016	2,489.53	2,605.79
31 December 2015	1,995.98	2,182.70
31 December 2014	1,985.60	2,293.36

3 Basis of Presentation

3.1 General principles

These 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, financial instruments categorised at fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI") (2017: available for sales financial assets and financial instruments categorized at fair value through profit or loss). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 49.

The Bank maintains its accounting records in accordance with the applicable legislation of Mongolia. The Bank's 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 financial statements are set out in Note 4.

3.2 Functional and presentation currency

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

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

3.3 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in these financial statements, and the carrying amounts of assets and liabilities within the next financial year. 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 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.

3 Basis of Preparation (continued)

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

(i) ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 41. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward-looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2018:

			Assumption for:		
Variable	**Scenario**	**Assigned weight**	**2019**	**2020**	**2021**
Inflation	Base	68%	9.3%	9.2%	11.1%
	Upside	12%	13.2%	16.2%	18.1%
	Downside	20%	6.3%	3.2%	3.2%
Loan rate	Base	68%	18.1%	18.9%	19.4%
	Upside	12%	17.6%	17.6%	18.1%
	Downside	20%	19.3%	19.8%	20.3%
M2 /YoY growth/	Base	68%	15.4%	22.2%	12.0%
	Upside	12%	26.7%	16.6%	14.9%
	Downside	20%	3.1%	28.9%	9.7%
MNT/USD /YoY growth/	Base	68%	5.1%	9.7%	4.6%
	Upside	12%	-2.5%	3.4%	1.7%
	Downside	20%	10.4%	9.7%	4.6%
GDP growth	Base	68%	6.6%	6.5%	4.0%
	Upside	12%	9.6%	11.5%	9.1%
	Downside	20%	3.7%	3.8%	1.1%
Unemployment rate	Base	68%	7.2%	7.0%	7.6%
	Upside	12%	7.0%	6.8%	6.5%
	Downside	20%	7.5%	9.4%	10.0%

The assumptions and assigned weights were as follows at 1 January 2018:

			Assumption for:	
Variable	**Scenario**	**Assigned weight**	**2019**	**2020**
Inflation	Base	70%	5.0%	4.9%
	Upside	10%	5.2%	8.4%
	Downside	20%	3.6%	1.7%
Loan rate	Base	70%	19.6%	19.0%
	Upside	10%	17.8%	15.3%
	Downside	20%	20.3%	20.8%
M2 /YoY growth /	Base	70%	16.5%	12.0%
	Upside	10%	16.5%	16.3%
	Downside	20%	-1.3%	9.0%
MNT/USD /YoY growth/	Base	70%	0.8%	-2.5%
	Upside	10%	0.1%	-3.1%
	Downside	20%	10.3%	9.7%
GDP growth	Base	70%	3.7%	5.3%
	Upside	10%	5.5%	7.3%
	Downside	20%	1.8%	2.3%
Unemployment rate	Base	70%	8.6%	8.2%
	Upside	10%	8.2%	7.6%
	Downside	20%	10.4%	10.1%

3 Basis of Preparation (continued)

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

The Bank considered to change the weight assigned to upside scenario and increased the weights assigned to the upside scenario by 2% during 2018 with consideration of improvement in Mongolian economy and stabilized foreign currency rates.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. Refer to Note 41.

The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. In order to determine the SICR, the management considers certain criteria based on its judgment. For every exposure, SICR criteria are:

- 30 days past due;
- Forbearance status;
- Loans classified with "Special mention" based on "Regulation on asset classification, provisioning and its disbursements" by the Bank of Mongolia.
- Default status.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by MNT 46,369,624 thousand as of 31 December 2018 (1 January 2018: higher by MNT 51,947,098 thousand).

3 Basis of Preparation (continued)

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

(ii) Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

On transition to IFRS 9, the Bank divided its portfolio of AFS securities into two sub-portfolios to reflect how these assets are managed. Approximately 27% was identified as a liquidity portfolio and classified as held to collect and sell, while the rest was classified as held to collect based on the assumption that these securities would only be sold in a stress case scenario.

The Bank assessed that all types of loans meet the criteria for hold to collect business model and determined that the past securitisation transactions happened on the only mortgage loan portfolio which sold to Mongolian Mortgage Corporation LLC ("MIK HFC LLC") with non-recourse and therefore are not inconsistent with the hold to collect business model. The past sales of the mortgage loan sold to MIK were frequent and significant in value, therefore the hold to sell business model is appropriate for it.

(iii) Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method.

As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are measured at FVTPL are described in Note 5 and it is related to financial instruments under Mortgage lending program.

3 Basis of Preparation (continued)

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

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail-in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

(iv) Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management analyses the modification at each circumstances with consideration of changes in the contract. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

(v) Write-off policy

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: loans being minimum of 180 days past due after court decision, liquidation or bankruptcy proceedings, and fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

(vi) Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 47.

(vii) Valuation of premises and investment properties

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuer who has recent experience in valuing similar properties in Mongolia. Valuations of properties obtained from independent professionally qualified valuers were adjusted for the purpose of these financial statements to avoid double-counting of assets and liabilities that are recognised separately from the valuation in the statement of financial position.

Information of assumptions and valuation technique used in determining fair value are disclosed in Note 45.

3 Basis of Preparation (continued)

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

(viii) 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 284,568,016 thousand as at 31 December 2018 (31 December 2017: MNT 366,512,751 thousand) and are disclosed in Note 28.

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

During 2018, the Bank participated in five tranches of MIK securitisation transaction. The Bank sold the 8% mortgage loans to MIK SPC14, MIK SPC15, MIK SPC16, MIK SPC17 and MIK SPC18, special purpose companies wholly owned by the MIK HFC LLC 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 HFC LLC.

On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 4% funding received from the Bank of Mongolia for financing the original 8% mortgage lending.

Management considered whether these loans have met the de-recognition criteria set out in IFRS. 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.

3 Basis of Preparation (continued)

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

(x) Investment in Investment Fund

As disclosed in Note 13, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2018, the Bank owns 10% (2017: 10%) of investment units of this Fund, while 88.4% of investment units have not been yet sold as of the date of approval of these financial statements. In 2018, additional 1,800,000 units of the Fund have been sold. 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 investments in equity securities and measure at FVOCI in accordance with IFRS 9 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 to receive any dividends during the operation of the Fund;
- the managing company of the Fund is actively seeking additional investors for remaining 88.4% units;
- 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.

(xi) 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 29,145,005 thousand is recognized as of 31 December 2018 (31 December 2017: MNT 8,818,335 thousand), refer to Note 36.

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 Bank's accounting policy (Note 4) and tax treatment and impose additional tax obligation.

3 Basis of Preparation (continued)

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

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 36), except when related gains and loss were already treated as taxable income and deductible expenses in previous periods. Long-term swaps with the Central Bank are taken to swap USD denominated long-term borrowings from international financial institutions to local currency.

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 36. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 43.

(xii) 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 2018, 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 2018 (31 December 2017: lower 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 assets of MNT 12,782,841 thousand (31 December 2017: deferred tax asset of MNT 6,302,458 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 36), management has assessed the risk that tax authorities may take different position and treat income from release of impairment provision as taxable income, in which case recognized deferred tax asset would not be recoverable. However, based on all available information at the date of issuance of these financial statements, management believes that such risk is remote.

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

As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns.

3 Basis of Preparation (continued)

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

As a result, the Bank has recognized deferred tax liability of MNT 9,850,031 thousand as of 31 December 2018 (31 December 2017: MNT 10,514,987 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 Bank'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 36.

(xiii) Fair value of long term derivatives

The Bank started entering into a long term cross currency interest rate SWAP arrangement with the Bank of Mongolia since September 2017. These derivatives are measured at fair value through profit and loss. The arrangement is to swap MNT/USD on regular basis based on interest rate formula with maturities ranging from 5 year to 8 years. The Bank developed a valuation model for assessing a fair value of such swap instruments. The model is fully based on observable market data. The Bank considers the fair value of swaps assessed based on the model to be of a Level 2, and hence the Day 1 gain on such a derivative instrument is recognised in the statement of profit and loss.

In September 2018 the Bank entered into five years cross currency interest rate swap with Bank of Mongolia for an amount of 100mln US dollars, and recognised a fair value of the swap as at 31 December 2018 MNT 84,037,389 thousands. The Day 1 gain for that transaction is assessed at MNT 59,176,794 thousands.

Information about assumptions used for valuation of fair value of instruments is disclosed in Note 44.

(xiv) Changes in accounting estimates

Derivative financial instruments: Starting from 2018, the Bank changed its accounting estimate for fair valuation technique of long term cross currency interest rate swap in order to apply method for best estimate of fair value. Management takes the view that this valuation technique reaches more accurate presentation of fair value of the derivative financial instruments. Main change in the valuation technique was the approach for the estimation of the forward rate, discount rates for Mongolian Tugriks and US dollars. The new accounting estimate has been applied prospectively from the start of 2018 since it was considered as change in accounting estimate. Accordingly, the adoption of the new accounting estimate has no effect on prior years. The effect on the current year is to increase the carrying amount of derivative at the start of the year by MNT 5,561,828 thousand and to increase the accumulated deficit by MNT 5,561,828 thousand.

(xv) Initial recognition other of financial instruments below market rate.

IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. When determining the amounts of loss/gain on initial recognition in relation to below market rate, management made judgements based on available information that weighted average lending rate of Mongolian commercial banks represents reasonable approximation of market interest rate on MNT funding in case of credit (counterparty).

4 Summary of Significant Accounting Policies

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

4.1 Financial instruments

The Bank classifies its financial assets in the following classes:

- Cash and cash equivalents (Note 4.3 and 4.4)
- Investments in debt securities (Note 4.6);
- Investments in equity securities (Note 4.7);
- Loans and advances (Note 4.5 and 4.9).

For presentation of financial assets by measurement category, refer to Note 46.

The Bank 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 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 Bank 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 Bank 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 Bank 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)

4.1 Financial instruments (continued)

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

Amortised cost ("AC") 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 allowance for expected credit 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 gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing 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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(ii) Initial recognition of financial instrument

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for 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. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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 Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of long term cross currency interest rate swaps and foreign exchange swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition and the amount determined at subsequent period. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

(iii) Classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial instruments (continued)

(iv) Classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a Bank of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

(v) Classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

(vi) Reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model. The Bank did not change its business model after once the reclassification on financial assets and liabilities as part of transition to IFRS 9 was completed.

(vii) Credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").

4 Summary of Significant Accounting Policies (continued)

4.1 Financial instruments (continued)

If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 41 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 41 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

(viii) Derecognition of financial assets

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all 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.

(ix) Write-off

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due; however, there is no reasonable expectation of recovery.

(x) Modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion.

Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial instruments (continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

4.2 Foreign currency translation

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Bank of Mongolia 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 Bank of Mongolia, 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 financial statements were as follows:

	2018	**2017**
Mongolian national Tugriks/US Dollar	2,642.92	2,427.13
Mongolian national Tugriks/EURO	3,028.65	2,897.87
Mongolian national Tugriks/British Pound Sterling	3,345.28	3,264.73
Mongolian national Tugriks/Chinese Yuan	385.73	371.58
Mongolian national Tugriks/Russian Rubble	38.00	42.12

4.3 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 AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

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

4 Summary of Significant Accounting Policies (continued)

4.4 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 Bank'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.

4.5 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 AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

4.6 Investment in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

4.7 Investments in equity securities

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

4.8 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts such as forward rate agreements, currency swaps and cross-currency interest rate swaps 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 from financial derivatives). The Bank does not apply hedge accounting.

4 Summary of Significant Accounting Policies (continued)

4.9 Loans and advances to customers

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

Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 41 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

4.10 Promissory notes purchased

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

4.11 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 Bank’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.

4.12 Offsetting

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

4.13 Financial liabilities

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

4 Summary of Significant Accounting Policies (continued)

4.13 Financial liabilities (continued)

Financial liability is initially recorded at fair value adjusted for transaction costs except for FVTPL.

Financial liabilities designated at FVTPL: The Bank may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

Financial liabilities – derecognition: Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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

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 AC.

Other borrowed funds - Other borrowed funds include loans obtained from international financial institutions and Mongolian government organizations. These financial liabilities are carried at AC using the effective interest rate method.

Subordinated debts - Subordinated debts are carried at AC using the effective interest rate method.

Other liabilities – Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

4.14 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 Bank, are recorded as reverse sale and repurchase agreements.

4 Summary of Significant Accounting Policies (continued)

4.14 Repurchase and reverse repurchase agreements (continued)

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.

Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

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

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revalued amounts of the Bank'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 Bank applies revaluation model for premises since 2013.

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

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:

- Premises – 40 years;
- Motor vehicles – 10 years;
- Furniture – 10 years;
- Office equipment and computer – from 3 to 10 years;
- Leasehold improvements - shorter of useful life and the term of the underlying lease.

4 Summary of Significant Accounting Policies (continued)

4.15 Premises and equipment (continued)

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

4.16 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 cost, 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 Bank 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 de-recognition of investment property is recognized in the profit or loss account in the year of derecognition.

Fair value of the Bank'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 Bank applies fair value model for valuation of investment properties since 2013.

4.17 Intangible assets

The Bank'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 Bank 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.

4.18 Operating leases

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

4 Summary of Significant Accounting Policies (continued)

4.18 Operating leases (continued)

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.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

4.19 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.

4.20 Share premium

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

4.21 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.

4.22 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.

4.23 Credit related commitments

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial 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 guarantee.

4 Summary of Significant Accounting Policies (continued)

4.23 Credit related commitments (continued)

At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

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 Bank 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 an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

4.24 Provisions

Provisions are recognised when the Bank 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 Bank 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.

4.25 Fiduciary Assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income. These fees are recognised over time, on a straight-line basis, when the services are rendered because the customer simultaneously receives and consumes the benefits as the Bank performs. Fees from fiduciary activities are presented within fee and commission income.

4.26 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.

4 Summary of Significant Accounting Policies (continued)

4.27 Taxation (continued)

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

4.28 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 Bank. 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 Bank 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 Bank.

4.29 Income and expense recognition

Interest income and expense are recorded for all debt instruments, other than those at FVTPL 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. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

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

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

4 Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees or fees for servicing loans on behalf of third parties.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

4.30 Repossessed collateral

Repossessed collateral (foreclosed assets) represents financial and non-financial assets acquired by the Bank 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 cost when acquired and included in the line 'Repossessed collateral' in the Statement of Financial Position. Depending on their nature and the Bank'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 Bank's management makes decision to use acquired immovable property for its own business activities, the Bank 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 4.15). If the Bank 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 Bank, the Bank reclassifies repossessed collateral to line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.16).

In case the Bank makes decision to sell its movable and/or immovable property acquired as repossessed collateral, the Bank 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 23.

In case of repossessed collateral in the form of financial asset such as securities, which value will be recovered through sale, the Bank classifies them depending on the financial assets characteristics and business model for IFRS measurement purposes 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" in either profit or loss or other comprehensive income depending on the assets classification. For details on financial repossessed assets, refer to Note 23.

4.31 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 Summary of Significant Accounting Policies (continued)

4.32 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

Adoption of IFRS 9 "Financial Instruments". The Bank adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Bank elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, *Financial Instruments: Disclosures* have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 4. Accounting policies applied prior to 1 January 2018.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

5 Adoption of New or Revised Standards and Interpretations (continued)

In thousands of Mongolian Tugriks	Measurement category		Carrying value under IAS 39	Effect of adopting IFRS 9				Carrying value under IFRS 9
				Reclassification		Remeasurement		
	IAS 39	**IFRS 9**	**31 December 2017**	**Mandatory**	**Voluntary**	**ECL**	**Other**	**1 January 2018**
Cash and cash equivalents	**L&R**	**AC**	**222,351,578**	**-**	**-**	**-**	**-**	**222,351,578**
Mandatory cash balances with with the Bank of Mongolia	**L&R**	**AC**	**395,029,289**	**-**	**-**	**-**	**-**	**395,029,289**
Investments in debt securities								
- Government bonds	Designated at FVTPL	Mandatory at FVTPL	205,219,226	-	-	-	-	205,219,226
- Government bonds	Designated at FVTPL	FVTOCI (with recycling)	29,467,287	-	-	(38,382)	-	29,428,905
- Treasury bills	L&R	FVTOCI (with recycling)	632,003,148	-	-	(283,643)	-	631,719,505
- MIK SRMBS	AFS	Mandatory at FVTPL	47,624,997	-	-	-	-	47,624,997
- Government bonds	HTM	AC	11,260,142	-	-	(449,616)	-	10,810,526
- Promissory notes	HTM	AC	20,832,945	-	-	(734,846)	-	20,098,099
- Corporate bonds	HTM	AC	20,894,378	-	-	(725,467)	-	20,168,911
- MIK JRMBS	HTM	Mandatory at FVTPL	83,407,188	-	-	-	-	83,407,188
- Government bonds	HTM	Mandatory at FVTPL	8,427,804	-	-	-	-	8,427,804
Total investments in debt securities			**1,059,137,115**	**-**	**-**	**(2,231,954)**	**-**	**1,056,905,161**
Investments in equity securities								
- Corporate shares	Designated at FVTPL	FVTOCI (no recycling)	13,471,119	-	-	-	-	13,471,119
- Corporate shares	Designated at FVTPL	Mandatory at FVTPL	918,712	-	-	-	-	918,712
- Corporate shares	AFS	FVOCI	576,770	-	-	-	-	576,770
- Investment in investment fund	AFS	FVOCI	58,000,000	-	-	-	-	58,000,000
- Corporate shares	AFS	Mandatory at FVTPL	112,415,221	-	-	-	-	112,415,221
Total investments in equity securities			**185,381,822**	**-**	**-**	**-**	**-**	**185,381,822**
Due from other banks								
- Correspondent accounts with other banks	L&R	AC	506,287,678	-	-	-	-	506,287,678
- Short term placements with other banks	L&R	AC	22,383,105	-	-	-	-	22,383,105
- Placements with other banks with original maturities of more than three months	L&R	AC	63,633,620	-	-	-	-	63,633,620
Total due from other banks			**592,304,403**	**-**	**-**	**-**	**-**	**592,304,403**
Derivative financial instruments	Mandatory at FVTPL	Mandatory at FVTPL	**75,466,402**	**-**	**-**	**-**	**-**	**75,466,402**
Other financial assets	L&R	AC	**24,397,065**	**-**	**-**	**-**	**-**	**24,397,065**

5 Adoption of New or Revised Standards and Interpretations (continued)

In thousands of Mongolian Tugriks	Measurement category		Carrying value under IFRS 9	Effect of adopting IFRS 9				Carrying value under IFRS 9
				Reclassification		Remeasurement		
	IAS 39	**IFRS 9**	**31 December 2017**	**Mandatory**	**Voluntary**	**ECL**	**Other**	**1 January 2018**
Loans and advances from customer								
- Corporate	L&R	AC	1,013,959,132	-	-	(4,680,085)	-	1,009,279,047
- Loans to small and medium business	L&R	AC	497,239,864	-	-	(40,606,567)	-	456,633,297
- Consumer loans to individuals	L&R	AC	462,790,317	-	-	(11,181,904)	-	451,695,398
- Mortgage loans to individuals	L&R	AC	174,429,891	-	-	(12,623,998)	-	161,805,893
- Mortgage loans to individuals	L&R	Mandatory at FVTPL	169,638,998	-	-	-	-	169,638,998
Total loans and advances			**2,318,058,202**	**-**	**-**	**(69,092,554)**	**-**	**2,249,052,633**
Financial guarantee			**(673,275)**			**(3,119,403)**		**(3,792,678)**

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 7 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

(b) Due from other banks

All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(c) Investments in debt securities

The main reasons for reclassifications were as follows:

1. *MIK Residential Mortgage Backed Securities identified as FVTPL (Senior and Junior Bonds).*The bank holds SRMBS shorter period than its maturity (20 years) until selling them to Bank of Mongolia.. The junior bonds are contractually linked to the comingled mortgage loans and the exposure to credit risk inherent in this subordinated tranche of bonds is higher than the exposure of the underlying loans. Consequently, the Bank has assessed that the appropriate business model for this securities are neither hold to collect nor hold to collect and sell. These securities, which were previously classified as AFS and held to maturity, were reclassified at FVTPL from the date of initial application.
2. *The Bank of Mongolia treasury bills and Government securities identified as held to collect and sell.* Following the assessment of its business model for Government securities and BoM treasury bills which are mostly held for liquidity purpose. Consequently, the Bank has assessed that appropriate business model for this group of securities is held to collect and sell. The Government securities, which were previously classified as FVTPL and treasury bills, which are previously classified as L&R, were reclassified at FVOCI from the date of initial application.
3. *Government securities held to maturity identified as FVTPL.* The bank holds certain investments in a portfolio of Government securities, which had previously classified as held to maturity. The Bank has assessed that the appropriate business model for this group of securities is hold to sell and measured at FVTPL from the date of initial application.
4. *Reclassification from retired categories with no change in measurement***.** In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:
   - those previously classified as HTM and now classified as measured at AC.

5 Adoption of New or Revised Standards and Interpretations (continued)

(d) Investments in equity securities

The Bank has elected to irrevocably designate some strategic investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS and FVTPL. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. All other equity investments were classified at FVTPL as required by IFRS 9.

IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Bank re-measured all such investments at fair value on adoption of IFRS 9 and classified as designated as at FVOCI.

(e) Loans and advances to customers

Loans and advances to customers previously measured at AC, but which business model assessment is not hold to collect. The Bank holds a non-recourse MIK mortgage loan portfolio that are “hold to sell” business model under IFRS 9.The objective of the Bank and observable activities under this specific scheme is to transfer to MIK in exchange of residential backed mortgage bonds. As a result, those loans and advances were classified as at FVTPL (mandatory) from the date of initial application of IFRS 9.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

		Effect			
In thousand of Mongolian Tugriks	**Provision under IAS 39 or IAS 37 at 31 December 2017**	**Reclassification to FVTPL**	**Reclassification to FVOCI**	**Remeasurement from incurred to expected loss**	**Credit loss allowance under IFRS 9 at 1 January 2018**
Loans and receivables measurement category					
- Investments in debt securities	-	-	-	2,231,954	**2,231,954**
- Loans and advances to customers	**95,532,750**			69,092,554	**164,625,304**
- Other financial assets	**2,993,802**	-	-	-	**2,993,802**
Financial guarantees	**673,275**			3,119,403	**3,792,678**

Exposure at default of undrawn part of revolving facilities included in the scope of IFRS 9 and forward looking information under scenarios with weighting newly applied to estimate expected credit losses. These factors drove the increased expected credit losses under IFRS 9 when transitioned from IAS 39.

5 Adoption of New or Revised Standards and Interpretations (continued)

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

In thousands of Mongolian Tugriks	Revaluation reserve for AFS securities	Revaluation reserve for securities at FVOCI	Retained earnings
Amounts at 31 December 2017 prior to adoption of IFRS 9	**40,331,226**	**-**	**218,533,691**
Reclassification of equity securities from available-for-sale to FVTPL	(42,084,506)	-	42,084,506
Reclassification of equity securities from available-for-sale to FVOCI	1,753,280	(1,753,280)	
Reclassification of equity securities from FVTPL to FVOCI		321,917	(321,917)
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	-	-	(241,519)
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost and credit related commitments	-	-	(55,591,414)
At 1 January 2018 (under IFRS 9)	**-**	**(1,431,363)**	**204,463,347**

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and 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 Bank has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced 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 standard did not have a material impact on the Bank.

The following amended standards became effective for the Bank from 1 January 2018, but did not have any material impact on the Bank:

- 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 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- 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).
- 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).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early 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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the new standard on its financial statements.

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 recognise: (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 Bank is currently assessing the impact of the new standard on its 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 Bank is currently assessing the impact of the new standard on its 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. 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.

6 Accounting Pronouncements (continued)

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

Amendments to IFRS 9 - "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments were early adopted by the Bank with the date of initial application of 1 January 2018. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument.

In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the de-recognition will result in an gain or loss in profit or loss. The Bank is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Bank does not expect a material impact of the amendments on its financial statements.

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). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should re-measure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not re-measure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa.

The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income.

It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits.

The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to re-measure net defined benefit liability or asset.

6 Accounting Pronouncements (continued)

The amendments require to use the updated assumptions from this r-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Bank is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Bank will apply them and assess their impact from 1 January 2020

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements.

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

7 Cash and Cash Equivalents

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

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Cash on hand	114,855,783	111,445,070
Current account with the Bank of Mongolia (other than mandatory reserve)	543,219,222	110,906,508
Cash and cash balances with central bank	**658,075,005**	**222,351,578**

Cash and balances with central bank (other than mandatory reserve) are not collateralised. Credit quality of current account with the Bank of Mongolia based on credit risk grade as at 31 December 2018 is "satisfactory" and the Bank of Mongolia had a Caa1 rating from Moody's as at 31 Decemebr 2017.

Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 41.

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

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Cash and balances with the central banks	658,075,005	222,351,578
Treasury bills of the Bank of Mongolia with original maturities of less than three months (Note 12, Note 15)	251,423,656	632,003,148
Due from banks (Note 11)	172,713,933	285,957,783
Reverse repurchase agreement (Note 10)	99,975,351	-
Total cash and cash equivalents	**1,182,187,945**	**1,140,312,509**

For the purpose of ECL measurement, cash and cash equivalents balances are included in Stage 1 as of 31 December 2018 and 31 December 2017. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Please see Note 41 for inputs, assumptions and estimation techniques used for ECL calculation.

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Mandatory cash balances with the Bank of Mongolia	455,072,892	395,029,289
Mandatory cash balances with the Bank of Mongolia	**455,072,892**	**395,029,289**

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% (2017: 12.0 %) of customer deposits for a period of 2 weeks.

Credit quality of current account with the Bank of Mongolia based on credit risk grade as at 31 December 2018 is "satisfactory" and neither past due nor imapired as at 31 December 2018 and 31 Decemebr 2017.

For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2018 and 31 December 2017.

8 Mandatory reserves with the Bank of Mongolia (continued)

The ECL for these balances represents an insignificant amount; therefore, the Bank did not recognise any credit loss allowance. Please see Note 41 for inputs, assumptions and estimation techniques used for ECL calculation.

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 are as follows:

In thousands of Mongolian Tugriks	**31 December 2017**
Government bonds	234,686,513
Other FVTPL investment securities	14,389,831
Total FVTPL financial assets	**249,076,344**

Government bonds 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 and issued at a discount.

Below is the information on changes in government bonds designated at fair value through profit or loss during the year ended 31 December 2017:

In thousands of Mongolian Tugriks	**31 December 2017**
Fair value as at 1 January	**388,269,112**
Acquisitions	533,751,812
Disposals of financial assets at FVTPL	(691,787,007)
Effect of exchange rate changes	337,312
Unamortised discount and premium	4,177,679
Interest income accrual	44,759,444
Interest income received	(44,821,839)
Fair value as at 31 December	**234,686,513**

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 year ended 31 December 2017:

In thousands of Mongolian Tugriks	**31 December 2017**
Fair value as at 1 January	**7,153,482**
Acquisitions	6,945,972
Disposals of financial assets at FVTPL	(1,108,242)
Effect of exchange rate changes	(208,708)
Fair value loss from change in net market value	1,607,327
Fair value as at 31 December	**14,389,831**

As these securities are carried at fair value based on observable market data (prices from respective stock exchanges), the Bank 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:

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

10 Reverse repurchase agreements

As of 31 December 2018, the reverse repurchase agreement relates to a short-term agreement with local bank, earning interest rate 9% p.a. with original maturity 3 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.

Interest rate analysis of securities classified as repurchase receivables is disclosed in Note 41.

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
- Special monitoring	99,975,351
Gross carrying amount	**99,975,351**
Credit loss allowance	-
Carrying amount	**99,975,351**

The ECL for reverse repurchase agreements represent an insignificant amount, therefore the Bank did not recognise any credit loss allowance for these balances. Please see Note 41 for inputs, assumptions and estimation techniques used for ECL calculation.

11 Due from Other Banks

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Correspondent accounts with other banks		
Foreign	153,173,299	469,924,422
Domestic	19,540,634	36,363,256
Short-term placements with other banks		
Domestic	-	22,383,105
Placements with other banks with original maturities of more than three months	413,423,859	63,633,620
Total due from other banks	**586,137,792**	**592,304,403**

Correspondent accounts with other banks as at 31 December 2018 include current accounts of USD 22,500 thousand (2017: USD 100,000 thousand) with a foreign bank. For short-term placements with domestic banks deposits have been matured in 2018.

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2018 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 41 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances. The carrying amount of due from other banks balances at 31 December 2018 below also represents the Bank's maximum exposure to credit risk on these assets

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)
- Excellent	142,996,216
- Good	5,748,221
- Satisfactory	159,395,049
- Special monitoring	277,998,306
Gross carrying amount	**586,137,792**
Credit loss allowance	-
Carrying amount	**586,137,792**

Analysis by credit quality of amounts due from other banks outstanding in 31 December 2017 is as follows:

In thousands of Mongolian Tugriks	31 December 2017
Neither past due nor impaired	
- AA- to AA+ rated	755,320
- A- to A+ rated	211,275,559
- Lower than A- rated	374,419,751
- Unrated	5,853,773
Total due from other banks	**592,304,403**

The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for correspondent accounts and placements with other banks.

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 41.

12 Investments in Debt Securities

In thousands of Mongolian Tugriks	**31 December 2018**
Debt securities at FVOCI	365,684,251
Debt securities mandatorily measured at FVTPL	119,425,772
Debt securities at AC	34,672,201
Less: Credit loss allowance	(840,166)
Total investments in debt securities	**518,942,058**

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Debt securities at FVTOCI**	**Debt securities mandatorily measured at FVTPL**	**Debt securities at AC**	**Total**
Treasury bills of the Bank of Mongolia (a)	365,146,307	-	-	**365,146,307**
MIK bonds (b)	-	111,962,492	-	**111,962,492**
Corporate bonds (c)	-	-	23,385,734	**23,385,734**
Government bonds (d)	537,944	7,463,280	11,286,467	**19,292,721**
Total investments in debt securities at 31 December 2018 (fair value or gross carrying value)	**365,684,251**	**119,425,772**	**34,672,201**	**519,782,224**
Less: Credit loss allowance	-	-	(840,166)	**(840,166)**
Total investments in debt securities at 31 December 2018 (carrying value)	**365,684,251**	**119,425,772**	**33,832,035**	**518,942,058**

(a) Treasury bills of the Bank of Mongolia

Treasury bills of the Bank of Mongolia at FVOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

(b) MIK bonds

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

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-HFC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

(c) Corporate bonds

As of 31 December 2018, the Bank has invested in MNT 23,385,734 thousand (2017: MNT 20,894,378 thousand) of corporate bonds which have interest rate of 14.4% p.a. and original maturities of 2191 days. Corporate bonds are classified as at AC by the Bank and the business model by the Bank is “hold to collect” for these securities.

12 Investment in debt securities (continued)

(d) Government bonds

Debt securities classified at FVOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

Debt securities classified at AC represents investment securities held for satisfying the liquidity and business model in a "held to collect”.

Debt securities mandatorily classified as at FVTPL by the Bank represent securities held for trading and securities in a ‘held to sell’ business model as the Bank had an intention to realise a trading gain. On initial recognition, the Bank has designated government bonds at FVTPL. The government bonds at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Bank’s maximum exposure to credit risk, and are not collateralised.

Investments in debt securities at FVTOCI

The following table discloses Treasury bills of the Bank of Mongolia at FVTOCI in the end of the reporting period:

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia	
- Satisfactory	366,256,329
Less credit loss allowance	(1,110,022)
Carrying value (fair value)	**365,146,307**

Treasury bills of the Bank of Mongolia with original maturities of less than three months are MNT 251,423,656 thousand as at 31 December 2018 and included in cash and cash equivalents for the purposes of the cash flow statement (Note 7).

The following table discloses Government bonds at FVTOCI in the end of the reporting period:

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
Government bonds	
- Satisfactory	542,973
Less credit loss allowance	(5,029)
Carrying value (fair value)	**537,944**

For description of the credit risk grading used in the tables above, refer to Note 41.

12 Investment in debt securities (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount debt securities carried at fair value through other comprehensive income between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Carrying value Stage 1 (12-months ECL)**
Government bonds at FVTOCI		
At 1 January 2018	**38,382**	**29,467,287**
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	(33,353)	(28,968,439)
Total gross carrying value	**5,029**	**498,848**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	44,125
At 31 December 2018	**5,029**	**542,973**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2018	**283,643**	**632,003,148**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	1,110,023	11,239,722,329
Derecognised during the period	(283,644)	(11,505,469,148)
At 31 December 2018	**1,110,022**	**366,256,329**

12 Investment in debt securities (continued)

Investments in debt securities at AC

The following table discloses investments in debt securities at AC in the end of the reporting period:

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
Government bonds	
- Satisfactory	11,286,467
Less: Credit loss allowance	(102,223)
Carrying value (fair value)	**11,184,244**
Corporate bonds	
- Excellent	23,385,734
Less: Credit loss allowance	(737,943)
Carrying value (fair value)	**22,647,791**
Total investments in debt securities measured at AC (gross carrying amount)	**34,672,201**
Credit loss allowance	**(840,166)**
Total investments in debt securities measured at AC (carrying amount)	**33,832,035**

For description of the credit risk grading used in the tables above, refer to Note 41.

12 Investment in debt securities (continued)

Investments in debt securities at AC

The following table discloses the changes in the credit loss allowance for investments in debt securities carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowance	Gross carrying amount
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 1 (12-months ECL)**
Government bonds at AC		
At 1 January 2018	449,616	11,260,142
Movements with impact on credit loss allowance charge for the period:		
Changes to ECL measurement model assumptions	(347,393)	-
Changes in accrued interest	-	26,325
Total movements with impact on credit loss allowance charge for the period	**102,223**	**11,286,467**
Corporate bonds at AC		
At 1 January 2018	1,460,313	41,727,323
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	(734,846)	(20,832,945)
Changes in accrued interest	-	2,491,356
Other movements	12,476	-
Total movements with impact on credit loss allowance charge for the period	**737,943**	**23,385,734**
Total movements with impact on as at At 31 December 2018	**840,166**	**34,672,201**

13 Investments in Equity Securities

In thousands of Mongolian Tugriks	**31 December 2018**
Equity securities at FVOCI	72,798,762
Equity securities at FVTPL	32,894,926
Total investments in equity securities	**105,693,688**

The table below discloses investments in equity securities at 31 December 2018 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Equity securities at FVTPL**	**Equity securities at FVOCI**	**Total**
Investments in investment funds	-	58,000,000	**58,000,000**
Corporate shares	32,894,926	14,798,762	**47,693,688**
Total investments in equity securities at 31 December 2018	**32,894,926**	**72,798,762**	**105,693,688**

(a) Investments in equity securities at FVTPL

Corporate shares at FVTPL represent securities held for trading and other quoted equity securities for which FVOCI election was not made on initial recognition.

Corporate shares mainly consists from quoted shares of Mongolian Mortgage Corporation and of APU JSC, both listed on Mongolian Stock Exchange, with fair value of MNT 15,099,560 thousands and MNT 16,440,728 thousands as of 31 December 2018 (MNT 11,017,825 thousands and MNT 101,508,061 thousands as of 31 December 2017).

(b) Investments in equity securities at FVOCI

As 31 December 2018, the Bank has invested in MNT 72,798,762 thousand of equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

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.

As at 31 December 2018 and 31 December 2017, the Bank 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 58,000 thousand and management believes that it is fully recoverable as at 31 December 2018 and 31 December 2017, 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 in equity securities at FVOCI in accordance with IFRS 9 requirements (Note 3).The Fund has operated since the special license was issued by the Financial Regulatory Commission in October 2015.

In 2018, the Bank sold its investment in shares of CGF LLC and Banks training center with fair value of MNT 46,317 thousands due to change in the Bank's strategy.

14 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Gross carrying amount of loans and advances to customers at AC	3,230,167,595	2,413,590,952
Less credit loss allowance	(172,900,278)	(95,532,750)
Total carrying amount of loans and advances to customers at AC	**3,057,267,317**	**2,318,058,202**
Loans and advances to customers at FVTPL	126,456,427	-
Total loans and advances to customers	**3,183,723,744**	**2,318,058,202**

The bank holds a MIK mortgage portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

	31 December 2018			31 December 2017		
In thousands of Mongolian Tugriks	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Loans to corporate customers						
Loans to Corporate	1,418,123,857	(76,760,488)	**1,341,363,369**	1,069,728,879	(55,769,747)	**1,013,959,132**
Loans to SME	674,851,230	(56,298,148)	**618,553,082**	524,467,181	(27,227,317)	**497,239,864**
Loans to individuals						
Consumer loans	893,570,466	(36,446,032)	**857,124,434**	471,438,576	(8,648,259)	**462,790,317**
Mortgage loans	243,622,042	(3,395,610)	**240,226,432**	347,956,316	(3,887,427)	**344,068,889**
Total loans and advances to customers at AC	**3,230,167,595**	**(172,900,278)**	**3,057,267,317**	**2,413,590,952**	**(95,532,750)**	**2,318,058,202**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to Corporate customers – loans issued to large commercial entities under standard terms;
- Loans to SME – loans issued to small and medium-sized enterprises;
- Consumer loans;
- Mortgage loans.

During 2018, a loss on initial recognition of loans at rates below market in the amount of MNT 16,943,013 thousand has been recorded in profit or loss for the year.

14 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Corporate								
At 1 January 2018	19,859,433	562,110	40,028,289	**60,449,832**	679,635,832	44,307,874	345,785,173	**1,069,728,879**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(8,545,810)	10,085,083	-	**1,539,273**	(101,113,904)	101,113,904	-	**-**
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	(14,276,975)	(562,110)	41,801,892	**26,962,807**	(312,590,473)	(57,897,922)	370,488,395	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	6,264,590	-	(8,337,761)	**(2,073,171)**	27,708,391	-	(27,708,391)	**-**
New originated or purchased	32,044,674	-	-	**32,044,674**	938,116,823	-	-	**938,116,823**
Derecognised during the period	(9,720,734)	(21,439)	(19,994,633)	**(29,736,806)**	(245,871,739)	(9,107,906)	(67,473,266)	**(322,452,911)**
Changes to ECL measurement model assumptions	(4,811,779)	(1,003,333)	(1,533,016)	**(7,348,128)**	-	-	-	**-**
Unwinding of discount	2,294,521	158,010	2,372,240	**4,824,771**	-	-	-	**-**
Changes in accrued interest	192,255	(73,294)	9,665,741	**9,784,702**	8,162,187	4,146,799	9,835,364	**22,144,350**
Settlement during the year	(5,421,140)	(358,781)	(4,791,750)	**(10,571,671)**	(110,602,133)	(50,720,974)	(182,482,708)	**(343,805,815)**
Credit loss allowance	9,469,330	-	27,553,763	**37,023,093**	4,843,586	-	(2,561,517)	**2,282,069**
Other movements	2,540,956	-	(457,102)	**2,083,854**	108,372,428	22,697,954	(79,520,667)	**51,549,715**
Total movements with impact on credit loss allow-ance charge for the period	**29,889,321**	**8,786,246**	**86,307,663**	**124,983,230**	**996,660,998**	**54,539,729**	**366,362,383**	**1,417,563,110**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(9,000,000)	-	(40,868,340)	**(49,868,340)**	(9,051,860)	-	(17,365,067)	**(26,416,927)**
FX and other movements	611,627	21,461	1,012,510	**1,645,598**	24,040,472	1,280,335	1,656,867	**26,977,674**
At 31 December 2018	**21,500,948**	**8,807,707**	**46,451,833**	**76,760,488**	**1,011,649,610**	**55,820,064**	**350,654,183**	**1,418,123,857**

During 2018, a loss on initial recognition of loans at rates below market in the amount of MNT 16,943,013 thousand has been recorded in profit or loss for the year. It is included in the new originated or purchased loans in above table. Refer to Note 4 for the management judgement.

14 Loans and Advances to Customers (Continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
SME								
At 1 January 2018	**5,039,636**	**3,412,998**	**59,381,250**	**67,833,884**	**329,355,784**	**22,689,634**	**172,421,763**	**524,467,181**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(197,667)	295,720	-	**98,053**	(13,263,076)	13,263,076	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,686,557)	(2,623,827)	8,958,776	**2,648,392**	(60,119,631)	(15,739,870)	75,859,501	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	461,642	(46,294)	(601,082)	**(185,734)**	1,316,668	(269,656)	(1,047,012)	**-**
- from Stage 3 to Stage 2	-	562,112	(570,737)	**(8,625)**	-	643,785	(643,785)	**-**
New originated or purchased	6,280,481	-	638,368	**6,918,849**	477,109,032	-	3,656,926	**480,765,958**
Derecognised during the period	(2,149,417)	(731,726)	(11,490,581)	**(14,371,724)**	(157,593,818)	(9,375,329)	(37,666,707)	**(204,635,854)**
Changes to ECL measurement model assumptions	-	-	(3,915,175)	**(3,915,175)**	-	-	-	**-**
Unwinding of discount	335,259	112,930	2,251,900	**2,700,089**	-	-	-	**-**
Changes in accrued interest	(31,457)	(5,957)	3,380,678	**3,343,264**	(225,097)	10,188	6,159,049	**5,944,140**
Settlement during the year	(2,120,574)	(709,885)	(13,805,887)	**(16,636,346)**	(45,479,315)	(1,101,239)	(22,749,495)	**(69,330,049)**
Credit loss allowance	91,843	5,739	18,526,705	**18,624,287**	3,902,121	97,707	(2,696,215)	**1,303,613**
Other movements	(29,099)	-	(969,280)	**(998,379)**	(27,906,171)	2,715,246	(30,063,140)	**(55,254,065)**
Total movements with impact on credit loss allowance charge for the period	**3,994,090**	**271,810**	**61,784,935**	**66,050,835**	**507,096,497**	**12,933,542**	**163,230,885**	**683,260,924**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(11,341,622)	**(11,341,622)**	-	-	(14,077,838)	**(14,077,838)**
FX and other movements	59,805	8,625	1,520,505	**1,588,935**	3,711,829	47,423	1,908,892	**5,668,144**
At 31 December 2018	**4,053,895**	**280,435**	**51,963,818**	**56,298,148**	**510,808,326**	**12,980,965**	**151,061,939**	**674,851,230**

14 Loans and Advances to Customers (Continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2018	**4,179,114**	**861,726**	**14,789,323**	**19,830,163**	**445,716,485**	**5,793,508**	**19,928,583**	**471,438,576**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(811,358)	957,395	-	**146,037**	(9,221,264)	9,221,264	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,636,261)	(305,211)	3,778,726	**837,254**	(12,295,230)	(1,975,464)	14,270,694	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	211,674	(100,265)	(214,048)	**(102,639)**	1,235,826	(798,701)	(437,125)	**-**
- from Stage 3 to Stage 2	-	32,150	(20,455)	**11,695**	-	42,993	(42,993)	**-**
New originated or purchased	9,208,621	-	1,283,481	**10,492,102**	613,809,077	-	17,172,591	**630,981,668**
Derecognised during the period	(1,618,937)	(117,505)	(2,025,806)	**(3,762,248)**	(228,242,962)	(1,002,810)	(2,889,989)	**(232,135,761)**
Unwinding of discount	341,533	23,833	268,190	**633,556**	-	-	-	**-**
Changes in accrued interest	(2,634)	14,081	1,240,784	**1,252,231**	277,118	57,916	1,528,316	**1,863,350**
Settlement during the year	(1,360,303)	(52,609)	(575,254)	**(1,988,166)**	(28,760,800)	(925,402)	(6,222,171)	**(35,908,373)**
Credit loss allowance	1,277,008	729,022	6,990,845	**8,996,875**	50,057,880	1,507,318	5,061,000	**56,626,198**
Total movements with impact on credit loss allowance charge for the period	**8,788,457**	**2,042,617**	**25,515,786**	**36,346,860**	**832,576,130**	**11,920,622**	**48,368,906**	**892,865,658**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(63,189)	(30,343)	(528,806)	**(622,338)**	(65,815)	(31,019)	(626,670)	**(723,504)**
FX and other movements	26,321	22,605	672,584	**721,510**	925,644	55,753	446,915	**1,428,312**
At 31 December 2018	**8,751,589**	**2,034,879**	**25,659,564**	**36,446,032**	**833,435,959**	**11,945,356**	**48,189,151**	**893,570,466**

14 Loans and Advances to Customers (Continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2018	**2,174,083**	**555,741**	**13,781,601**	**16,511,425**	**158,247,572**	**2,658,297**	**17,411,449**	**178,317,318**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(65,937)	92,317	-	**26,380**	(3,428,876)	3,428,876	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(78,718)	(190,819)	378,046	**108,509**	(5,353,975)	(892,939)	6,246,914	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	801,386	(160,823)	(1,095,568)	**(455,005)**	2,805,856	(1,210,784)	(1,595,072)	**-**
- from Stage 3 to Stage 2	-	106,561	(149,856)	**(43,295)**	-	216,319	(216,319)	**-**
New originated or purchased	254,160	-	-	**254,160**	125,942,191	-	-	**125,942,191**
Derecognised during the period	(521,891)	(39,878)	(2,485,013)	**(3,046,782)**	(44,798,684)	(256,148)	(3,134,526)	**(48,189,358)**
Changes to ECL measurement model assumptions	(2,033,180)	(289,647)	(8,526,673)	**(10,849,500)**	-	-	-	**-**
Unwinding of discount	397,899	11,312	1,501,729	**1,910,940**	-	-	-	**-**
Changes in accrued interest	(46,912)	(1,537)	(368,650)	**(417,099)**	(65,281)	20,697	528,066	**483,482**
Settlement during the year	(550,046)	(4,240)	(248,618)	**(802,904)**	(11,857,097)	(163,878)	(1,494,671)	**(13,515,646)**
Credit loss allowance	19,565	41,968	136,730	**198,263**	960,687	61,833	(472,878)	**549,642**
Other movements	-	-	-	**-**	2,805,858	(1,210,786)	(1,595,072)	**-**
Total movements with impact on credit loss allowance charge for the period	**350,409**	**120,955**	**2,923,728**	**3,395,092**	**225,258,251**	**2,651,487**	**15,677,891**	**243,587,629**
Movements without impact on credit loss allowance charge for the period:								
FX and other movements	518	-	-	**518**	34,413	-	-	**34,413**
At 31 December 2018	**350,927**	**120,955**	**2,923,728**	**3,395,610**	**225,292,664**	**2,651,487**	**15,677,891**	**243,622,042**

The total amount of POCI assets recognised during the period was MNT 31,824, 920 thousand and included in Stage 3 of SME and Consumer class. These loans were individually assessed and MNT 7,778,313 expected credit loss included in total ECL balance.

14 Loans and Advances to Customers (Continued)

Movements in the expected credit loss allowance for loan impairment of loans to legal entities and individuals during 2018 of are as follows:

-In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2017	**55,769,747**	**27,227,317**	**8,648,259**	**3,887,427**	**95,532,750**
Adoption of IFRS 9:					
– remeasurement for expected credit losses, net of tax	4,680,085	40,606,567	11,181,904	12,623,998	**69,092,554**
(Recovery of)/provision for impairment during the year	64,533,398	(1,783,049)	16,516,697	(13,116,333)	**66,150,713**
Amounts written off during the year as uncollectible	(49,868,340)	(11,341,622)	(622,338)	-	**(61,832,300)**
Exchange difference	1,645,598	1,588,935	721,510	518	**3,956,561**
Expected credit loss allowance at 31 December 2018	**76,760,488**	**56,298,148**	**36,446,032**	**3,395,610**	**172,900,278**

Movements in the provision for loan impairment of loans to legal entities and individuals during 2017 of are as follows

-In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2017	**50,492,598**	**30,839,253**	**5,127,277**	**4,257,082**	**90,716,210**
(Recovery of)/provision for impairment during the year	34,193,439	(5,655,329)	5,088,655	(335,004)	**33,291,761**
Amounts written off during the year as uncollectible	(26,448,168)	(612,714)	(2,259,854)	(34,896)	**(29,355,632)**
Exchange difference	(2,468,122)	2,656,107	692,181	245	**880,411**
Provision for loan impairment at 31 December 2017	**55,769,747**	**27,227,317**	**8,648,259**	**3,887,427**	**95,532,750**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 41 Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

14 Loans and Advances to Customers (Continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	1,011,649,610	15,476,604	293,302,011	**1,320,428,225**
- Good	-	-	11,618,418	**11,618,418**
- Satisfactory	-	40,343,460	-	**40,343,460**
- Default	-	-	45,733,754	**45,733,754**
Gross carrying amount	**1,011,649,610**	**55,820,064**	**350,654,183**	**1,418,123,857**
Credit loss allowance	(21,500,948)	(8,807,707)	(46,451,833)	**(76,760,488)**
Carrying amount	**990,148,662**	**47,012,357**	**304,202,350**	**1,341,363,369**
Loans to SME				
- Excellent	505,255,571	3,342,668	52,699,013	**561,297,252**
- Good	5,552,755	1,047,854	451,307	**7,051,916**
- Satisfactory	-	5,156,055	1,890,804	**7,046,859**
- Special monitoring	-	3,434,388	3,237,141	**6,671,529**
- Default	-	-	92,783,674	**92,783,674**
Gross carrying amount	**510,808,326**	**12,980,965**	**151,061,939**	**674,851,230**
Credit loss allowance	(4,053,895)	(280,435)	(51,963,818)	**(56,298,148)**
Carrying amount	**506,754,431**	**12,700,530**	**99,098,121**	**618,553,082**
Consumer loans				
- Excellent	830,206,239	32,230	18,906,073	**849,144,542**
- Good	3,229,720	3,848,133	127,976	**7,205,829**
- Satisfactory	-	5,012,916	257,198	**5,270,114**
- Special monitoring	-	3,052,077	255,308	**3,307,385**
- Default	-	-	28,642,596	**28,642,596**
Gross carrying amount	**833,435,959**	**11,945,356**	**48,189,151**	**893,570,466**
Credit loss allowance	(8,751,589)	(2,034,879)	(25,659,564)	(36,446,032)
Carrying amount	**824,684,370**	**9,910,477**	**22,529,587**	**857,124,434**

14 Loans and Advances to Customers (Continued)

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Mortgage loans				
- Excellent	225,055,462	146,510	4,987,405	**230,189,377**
- Good	237,202	747,345	523,189	**1,507,736**
- Satisfactory	-	1,317,286	1,090,664	**2,407,950**
- Special monitoring	-	440,346	600,870	**1,041,216**
- Default	-	-	8,475,763	**8,475,763**
Gross carrying amount	**225,292,664**	**2,651,487**	**15,677,891**	**243,622,042**
Credit loss allowance	(350,927)	(120,955)	(2,923,728)	**(3,395,610)**
Carrying amount	**224,941,737**	**2,530,532**	**12,754,163**	**240,226,432**

For description of the credit risk grading used in the tables above, refer to Note 41.

14 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2017 is disclosed 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	661,159,420	354,284,499	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	144,649,559
Total neither past due nor impaired	**869,627,677**	**377,519,537**	**457,665,870**	**329,641,784**	**2,034,454,868**
Past due but not impaired					
- less than 30 days overdue	9,057,825	2,616,793	1,735,644	1,929,375	15,339,636
- 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	114,093,359
Total past due but not impaired	**128,358,829**	**105,540,256**	**13,772,706**	**18,314,532**	**265,986,322**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	17,630,663	-	-	17,630,663
- 30 to 90 days overdue	33,093,936	-	-	-	33,093,936
- 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)	**71,742,373**	**41,407,388**	**-**	**-**	**113,149,761**
Less impairment provisions	(55,769,747)	(27,227,317)	(8,648,259)	(3,887,426)	**(95,532,750)**
Total loans and advances to customers	**1,013,959,132**	**497,239,865**	**462,790,317**	**344,068,889**	**2,318,058,202**

14 Loans and Advances to Customers (Continued)

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

	2018		2017	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Salary & Consumption	761,815,911	22.70%	443,776,268	18.39%
Trade - Whole & Retail	541,699,974	16.14%	260,296,893	10.78%
Construction	398,816,443	11.88%	351,638,125	14.57%
Mortgage & House maintenance.	375,513,690	11.19%	347,956,315	14.42%
Mining & Exploration	357,749,985	10.66%	426,171,133	17.66%
Manufacturing	319,151,969	9.51%	242,721,397	10.06%
Electricity & Oil	99,285,325	2.96%	46,597,798	1.93%
Car	86,891,607	2.59%	21,784,342	0.90%
Finance	76,990,769	2.29%	34,387,821	1.42%
Transport & Comm.	80,289,667	2.39%	23,408,950	0.97%
Real estate	57,967,721	1.73%	77,282,540	3.20%
Hotel & Restaurant	49,729,008	1.48%	24,107,851	1.00%
Maintenance	47,092,648	1.40%	42,140,076	1.75%
Agriculture	37,162,642	1.11%	27,039,069	1.12%
Home appliances	27,690,357	0.82%	5,877,966	0.24%
Healthcare	12,519,860	0.37%	12,230,871	0.51%
Tourism	10,717,761	0.32%	18,207,973	0.75%
Education	8,830,321	0.26%	3,344,278	0.14%
Social services	2,700,038	0.08%	774,111	0.03%
Public service	1,783,448	0.05%	2,452,134	0.10%
Infrastructure	1,354,337	0.04%	1,026,118	0.04%
Entrepreneurship	870,541	0.03%	364,786	0.02%
International organization	-	0.00%	4,137	0.00%
Total loans and advances to customers carried at AC and at FVTPL before credit loss allowance	**3,356,624,022**	**100%**	**2,413,590,952**	**100%**

14 Loans and Advances to Customers (Continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Loans collateralised by:					
- residential real estate	66,788,458	85,275,175	27,614,888	198,169,884	**377,848,405**
- other real estate	331,383,671	227,384,181	12,556,756	15,121,123	**586,445,731**
- tradable securities	97,970,721	10,544,353	-	80,561	**108,595,635**
- cash deposits	1,646,093	9,296,484	139,784,083	1,285,374	**152,012,034**
- machinery and equipment	45,573,433	30,732,744	71,152,500	2,533,476	**149,992,153**
- inventories	158,518,825	48,716,891	2,633,962	733,847	**210,603,525**
- receivables	69,195,946	37,464,022	256,989	11,959	**106,928,916**
- guarantees	380,702,498	138,662,148	12,020,703	23,672,510	**555,057,859**
- future revenues	102,222,819	36,506,780	31,627,340	430,836	**170,787,775**
- other assets	142,888,651	19,943,857	2,954,305	1,242,366	**167,029,179**
Total	**1,396,891,115**	**644,526,635**	**300,601,526**	**243,281,936**	**2,585,301,212**
Unsecured exposures	21,232,742	30,324,595	592,968,940	340,106	**644,866,383**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,418,123,857**	**674,851,230**	**893,570,466**	**243,622,042**	**3,230,167,595**

14 Loans and Advances to Customers (Continued)

Information about collateral for loans to corporate and individual customers is as follows at 31 December 2017:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	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	**242,761,510**
- other assets	242,848,524	117,453,044	91,997,484	8,450,701	**460,749,754**
Total	**1,069,728,878**	**524,467,181**	**214,274,849**	**347,956,316**	**2,156,427,225**
Unsecured exposures	-	-	257,163,726	-	**257,163,726**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,069,728,878**	**524,467,181**	**471,438,576**	**347,956,316**	**2,413,590,952**

Other assets mainly include equipment and receivables. 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. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

In thousands of Mongolian Tugriks	31 December 2018
Loans to corporate customers	
Loans to Corporate	191,259,919
Loans to SME	101,418,243
Loans to individuals	
Consumer loans	137,834,602
Mortgage loans	146,894,405
Total significantly over-collateralised loans and advances to customers carried at AC	**577,407,169**

14 Loans and Advances to Customers (Continued)

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, 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 on credit-impaired assets at 31 December 2018 is as follows.

	Over-collateralized assets		**Under-collateralized assets**	
In thousands of Mongolian Tugriks	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC				
Corporate	228,161,854	704,479,637	76,040,496	61,014,351
SME	55,046,992	157,349,560	44,051,129	30,550,960
Consumer	636,828	1,408,323	21,892,759	947,062
Mortgage	7,521,774	17,954,672	5,232,389	4,230,994
Total	**291,367,448**	**881,192,192**	**147,216,773**	**96,743,367**

The effect of collateral at 31 December 2017 is presented for all loans, whether impaired or not, as follows:

	Over-collateralized assets		**Under-collateralized 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	69,211,678	42,991,925
Loans to small and medium business	475,777,656	1,920,033,660	48,689,525	33,064,152
Consumer loans to individuals	160,826,950	892,193,243	310,611,576	52,338,684
Mortgage loans to individuals	345,509,857	649,331,217	2,446,316	1,526,407
Total	**1,982,631,687**	**10,973,478,398**	**430,959,095**	**129,921,168**

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to two years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are fair value of the collateral and the bank applies haircut of 0-100%, considering liquidity and quality of the pledged assets.

14 Loans and Advances to Customers (Continued)

Description of collateral held for loans to corporate and individual customers carried at FVTPL is as follows at 31 December 2018:

In thousands of Mongolian Tugriks	**Mortgage**
Loans collateralized by:	
- residential real estate	125,235,367
- other real estate	790,626
- other assets	430,434
Total	**126,456,427**
Unsecured exposures	-
Total carrying value loans and advances to customers at FVTPL (amount representing exposure to credit risk for each class of loans at FVTPL)	**126,456,427**

Other assets mainly include land. 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. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at FVTPL, 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"). There are loans at FVTPL in amount of MNT 2,666,257 thousand, which are over-collateralised, and MNT 1,192,063 thousand which are under-collateralised at 31 December 2018.

The outstanding contractual amounts of loans and advances to customers written off in the reporting period that are still subject to enforcement activity was as follows at 31 December 2018:

In thousands of Mongolian Tugriks	**31 December 2018**
Loans to corporate customers	
Loans to Corporate	23,099,864
Loans to SME	11,341,622
Loans to individuals	
Consumer loans	622,338
Mortgage loans	-
Total	**35,063,824**

14 Loans and Advances to Customers (Continued)

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off, as there is no reasonable expectation of recovery.

Information about modifications of loans that have not resulted in derecognition is as follows:

In thousands of Mongolian Tugriks	**Loans and advances to customers**
Year ended 31 December 2018	
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	15,662,118
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(1,293,892)

Refer to Note 45 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 41. Information on related party balances is disclosed in Note 47.

15 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 BoM bills during the year ended 31 December 2017:

In thousands of Mongolian Tugriks	**2017**
Carrying value as at 1 January 2017	**41,979,911**
Acquired	17,204,519,000
Matured	(16,614,019,000)
Unamortised discount/premium	(476,763)
Interest income accrual	41,123,291
Interest income received	(41,123,291)
Carrying value as at 31 December 2017	**632,003,148**

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 with discounts and have effective interest rates of 11% p.a. with original maturities ranging from 5 to 8 days.

As of 31 December 2017, treasury bills amounted to MNT 25,291,700 thousand were collateralized under REPO arrangements disclosed in Note 28.

16 Investment Securities Available for Sale

In thousands of Mongolian Tugriks	**31 December 2017**
MIK bonds	47,624,997
Total debt securities	**47,624,997**
Quoted equity securities, at fair value	112,492,725
Unquoted equities, at fair value	58,499,266
Total corporate shares	**170,991,991**
Total investment securities AFS	**218,616,988**

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

In thousands of Mongolian Tugriks	**2017**
Carrying amount at 1 January	**126,165,928**
Fair value gains less losses	47,359,915
Interest income accrued	384,397
Purchases – quoted	661,083
Purchases – unquoted	120,732,800
Disposals of investment securities available for sale – quoted	(2,961,295)
Disposals of investment securities available for sale – unquoted	(73,492,350)
Exchange differences	(233,490)
Carrying amount at 31 December	**218,616,988**

Fair value gains of MNT 47,359,915 thousand in other comprehensive income for the year ended 2017 represents the fair value adjustment of available for sale investment.
Purchases and disposals of unquoted securities represent movement of Senior Tranche of MIK bond.

17 Investment Securities Held to Maturity

In thousands of Mongolian Tugriks	**31 December 2017**
Government bonds (a)	19,687,946
MIK bond (b)	83,407,188
Promissory Notes	20,832,945
Corporate bonds	20,894,378
Total investment securities held to maturity	**144,822,457**

For measurement of investment securities held to maturity refer to Note 46.

(a) Government bonds

Government bonds are issued by the Ministry of Finance with original maturities ranging from 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.

17 Investment Securities Held to Maturity (continued)

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

In thousands of Mongolian Tugriks	**2017**
Fair value as at 1 January 2017	**5,745,792**
Acquired	13,627,085
Unamortised discount/premium	(129,702)
Interest income accrual	1,150,277
Interest income received	(705,506)
Fair value as at 31 December 2017	**19,687,946**

(b) MIK bond

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%.

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.

(c) Promissory Notes

Promissory notes with principal amount of MNT 22,000,000 thousand were collateralized under REPO arrangements disclosed in Note 28 as at 31 December 2017.

Analysis by credit quality of investment securities 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**	**Corporate bonds**	**Promissory notes**	**Total**
Neither past due nor impaired					
- B	19,687,946	-	-	-	19,687,946
- Unrated	-	83,407,188	20,894,378	20,832,945	125,134,511
Total neither past due nor impaired	**19,687,946**	**83,407,188**	**20,894,378**	**20,832,945**	**144,822,457**

17 Investment Securities Held to Maturity (continued)

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.

18 Investment Properties

Below is the information on changes in investment properties during the years ended 31 December 2018 and 31 December 2017:

In thousands of Mongolian Tugriks	Note	2018	2017
Investment properties at fair value at 1 January		**57,505,587**	**51,291,334**
Disposals		(20,187,920)	-
Transfer to Assets held for sale	24	-	(3,184,457)
Transfer to Plant properties and equipment	22	-	(65,100)
Transferred from repossessed collateral	23	-	8,936,103
Fair value (losses)/gains		(3,023,845)	527,707
Investment properties at fair value at 31 December		**34,293,822**	**57,505,587**

The Bank'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 Bank. Accounting policy for investment properties is disclosed in Note 4.16.

19 Investment in Subsidiary

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

On 27 August 2018, 94,200 shares (MNT 12,000 per share) in the subsidiary were sold to Golomt Financial Group LLC in accordance with the decision of Financial Regulatory Commission of Mongolia. The remaining 5,800 shares were purchased by Golomt Capital LLC.

20 Other Assets

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Other financial assets at AC:		
Receivable from companies	19,193,718	9,627,664
Receivable from individuals	3,013,739	426,874
Receivables on cash and settlements services	2,796,705	7,890,670
Other financial assets	1,464,870	9,445,658
Less credit loss allowance	(8,257,678)	(2,993,802)
Total other financial assets at AC	**18,211,354**	**24,397,064**
Other non-financial assets:		
Precious metals	5,240,722	-
Other non-financial assets	3,097,903	1,001,142
Prepayment for maintenance of buildings	2,833,379	1,245,538
Prepayments for employees benefits	2,115,255	2,226,793
Prepayments for rent	386,861	236,540
Prepayments for employees	194,542	281,921
Office materials and supplies	173,661	1,702,903
Other prepayments	12,573,054	13,238,847
Total non-financial assets	**26,615,377**	**19,933,684**
Total other assets	**44,826,731**	**44,330,748**

MNT 3,537,085 thousands of dividends are included in the receivable from companies.

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2018.

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies			
- Excellent	13,727,827	-	**13,727,827**
- Good	258,553	-	**258,553**
- Default	-	5,207,338	**5,207,338**
Gross carrying amount	**13,986,380**	**5,207,338**	**19,193,718**
Credit loss allowance	(196,110)	(5,207,338)	**(5,403,448)**
Carrying amount	**13,790,270**	**-**	**13,790,270**

20 Other Assets (Continued)

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Receivables from individuals			
- Excellent	26,768	-	**26,768**
- Good	36,317	-	**36,317**
- Satisfactory	186,616	-	**186,616**
- Default	-	2,764,038	**2,764,038**
Gross carrying amount	**249,701**	**2,764,038**	**3,013,739**
Credit loss allowance	(111,778)	(2,742,452)	(2,854,230)
Carrying amount	**137,923**	**21,586**	**159,509**

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
Receivables on cash and settlements services	
- Excellent	2,796,705
Gross carrying amount	**2,796,705**
Credit loss allowance	-
Carrying amount	**2,796,705**

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**
Other financial asset	
- Excellent	1,464,870
Gross carrying amount	**1,464,870**
Credit loss allowance	-
Carrying amount	**1,464,870**

20 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					
- 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 provision	-	(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**

Movements in the provision for asset impairment during 2018 are as follows:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Other financial assets	Total
Provision for asset impairment at 1 January 2018	**-**	**327,311**	**2,666,491**	**2,993,802**
Provision/(reversal) for impairment during the year	3,027,665	2,290,579	(2,651,261)	**2,666,983**
Transfer from repossessed collateral	2,375,783	-	-	**2,375,783**
Exchange difference	-	327,043	-	**327,043**
Amounts written off during the year as uncollectible	-	(90,703)	(15,230)	**(105,933)**
Provision for asset impairment at 31 December 2018	**5,403,448**	**2,854,230**	**-**	**8,257,678**

20 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**

21 Intangible Assets

In thousands of Mongolian Tugriks	Computer software licences	Land use right	Total
Cost at 1 January 2017	**27,347,091**	**673,313**	**28,020,404**
Accumulated amortization	(14,073,667)	-	**(14,073,667)**
Carrying amount at 1 January 2017	**13,273,424**	**673,313**	**13,946,737**
Additions	1,289,687	-	**1,289,687**
Amortization for the year	(1,619,599)	-	**(1,619,599)**
Carrying amount at 31 December 2017	**12,943,512**	**673,313**	**13,616,825**
Cost at 1 January 2018	**26,049,880**	**673,313**	**26,723,193**
Accumulated amortization	(13,106,368)	-	**(13,106,368)**
Carrying amount at 1 January 2018	**12,943,512**	**673,313**	**13,616,825**
Additions	3,217,588	-	**3,217,588**
Transfers	63,033	-	**63,033**
Amortisation	(2,647,120)	-	**(2,647,120)**
Carrying amount at 31 December 2018	**13,577,013**	**673,313**	**14,250,326**

22 Premises and Equipment

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold im-provement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 2017	**151,916,380**	**2,609,801**	**32,611,104**	**6,221,730**	**1,611,900**	**14,546,855**	**209,517,770**
Accumulated depreciation	(7,661,707)	(1,278,934)	(26,144,277)	(2,268,710)	(1,155,499)	-	**(38,509,127)**
						-	
Carrying amount at 1 January 2017	**144,254,673**	**1,330,867**	**6,466,827**	**3,953,020**	**456,401**	**14,546,855**	**171,008,643**
Additions	1,776,573	72,300	6,756,920	531,010	1,812,166	6,096,331	**17,045,300**
Transfers	-	-	2,328,372	(15,912)	-	(2,312,460)	**-**
Disposals	-	(100,000)	(53,066)	(9,784)	-	(13,210,625)	**(13,373,475)**
Write-offs	-	-	(581,746)	(37,058)	-	-	**(618,804)**
Depreciation 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 December 2017	**116,837,207**	**1,109,902**	**11,634,808**	**4,115,980**	**1,737,124**	**5,120,101**	**140,555,122**
Cost/valuation at 1 January 2018	**128,292,953**	**2,582,101**	**41,061,584**	**6,689,986**	**3,424,066**	**5,120,101**	**187,170,791**
Accumulated depreciation	(11,455,746)	(1,472,199)	(29,426,776)	(2,574,006)	(1,686,942)	-	**(46,615,669)**
Carrying amount at 1 January 2018	**116,837,207**	**1,109,902**	**11,634,808**	**4,115,980**	**1,737,124**	**5,120,101**	**140,555,122**
						-	
Additions	19,449,909	882,614	3,888,879	842,958	2,229,978	4,888,205	**32,182,543**
Transfers	-	1,115	4,529,306	45,947	-	(4,691,519)	**(115,151)**
Disposals	(8,708,657)	(436,939)	(109,409)	(3,281)	-	(305,079)	**(9,563,365)**
Write-offs	-	-	(651,898)	(110,357)		(19,656)	**(781,911)**
Depreciation for the year	(3,390,412)	(255,911)	(4,753,852)	(358,296)	(998,947)	-	**(9,757,418)**
Transfers	-	-	7,436	1,816	-	-	**9,252**
Disposals	-	285,165	109,409	3,281	-	-	**397,855**
Write-offs	-	-	673,705	89,615	-	-	**763,320**
Impairment net of revaluation	(23,600,000)	-	-	-	-	-	**(23,600,000)**
Carrying amount at 31 December 2018	**100,588,047**	**1,585,946**	**15,328,384**	**4,627,663**	**2,968,155**	**4,992,052**	**130,090,247**

22 Premises and Equipment (continued)

Premises have been revalued at fair value as at 31 December 2018. The valuation was carried out by an independent firm of appraisers, M.A.D LLC and Gerege Estimate LLC, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal was market value of the similar premises located in the Ulaanbaatar. As a result, the bank recognized impairment charge of MNT 26,600,000 thousand through profit or loss account and recognized increase in fair value of premises of MNT 3,000,000 thousand through other comprehensive income.

At 31 December 2018, the carrying amount of premises would have been MNT 93,626,137 thousand (2017: MNT 112,434,716 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 2018**	**31 December 2017**
Premises at revalued amount in the statement of financial position	100,588,047	116,837,207
Revaluation reserve presented in equity	(6,855,242)	(3,961,909)
Realised revaluation reserve	(106,667)	(440,582)
Premises at cost less accumulated depreciation	**93,626,138**	**112,434,716**

Refer to Note 45 for the disclosure for inputs and model used to determine fair value and its sensitivity analysis.

23 Repossessed Collateral

In thousands of Mongolian Tugriks	**31 December 2018**	**31 December 2017**
Financial asset at fair value	35,687,446	44,660,926
Non-financial assets at cost	62,348,741	4,831,076
Less: Impairment provision	(8,134,870)	(2,401,216)
Total repossessed collateral	**89,901,317**	**47,090,786**

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. In case of repossessed collateral in the form of financial asset such as securities, Bank classifies them for IFRS measurement purposes as investments in equity securities and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

During 2018, the Bank recognised MNT 98,226,084 thousand (2017: MNT 78,035,137 thousand) repossessed collateral through foreclosure process and reclassified MNT 31,165,516 thousand (2017: MNT 37,302,020 thousand) of assets from repossessed collateral to Non-Current Assets Classified as Held for Sale, following the management’s intentions in relation to those assets.

Financial assets at fair value as of 31 December 2018 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 investment in equity securities. Refer to Note 46.

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 4.30.

23 Repossessed Collateral (continued)

Movements in the provision for repossessed non-financial collaterals during 2018 and 2017 are as follows:

In thousands of Mongolian Tugriks	2018	2017
Provision for repossessed collaterals at 1 January	**2,401,216**	**4,101,061**
Provision/(reversal) for impairment during the year	6,546,401	(286,172)
Transfer of provision from non-current assets classified as held for sale	1,579,785	
Amounts written off during the year as uncollectible	(2,392,532)	(1,413,673)
Provision for repossessed collaterals at 31 December	**8,134,870**	**2,401,216**

24 Non-Current Assets Classified as Held for Sale

Non-current assets classified as held for sale were previously classified as repossessed collateral, acquired by the Bank in settlement of overdue loans. Management approved a plan to sell non-current assets on each transfer of asset. The Bank 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 4.11.

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

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Residential apartments or houses	22,160,668	11,479,720
Buildings	6,515,813	1,083,642
Office and commercial spaces	5,985,115	38,635,433
Equipment	100,219	1,196,903
Other	15,274	160,719
Total non-current assets held for sale	**34,777,089**	**52,556,417**

In June 2018, the Bank decided to transfer non-current assets amounted to MNT 17,040,000 thousands with 3,000 sq.m to its own use of office building in following up the Board of Director's resolution with number of 00/11 at 19 June 2018.

25 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Short-term placements of other banks	10,421,840	255,246,082
Long-term placements of other banks	138,344,887	132,946,151
Total due to other banks	**148,766,727**	**388,192,233**

25 Due to Other Banks (continued)

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 decrease in amounts of due to other banks mainly relates to short term placements from a Development bank of Mongolia.

At 31 December 2018, 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 2.0% p.a. to 8.5% p.a. (2017: from 1.6% p.a. to 14.0% p.a.) and original maturities ranging from 90 to 255 days (2017: from 5 to 516 days).

Refer to Note 45 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 41.

26 Customer Accounts

In thousands of Mongolian Tugriks	**31 December 2018**	**31 December 2017**
Individuals	**2,537,012,206**	**2,233,766,425**
- Current/demand accounts	223,296,003	153,633,973
- Demand deposits	449,762,246	417,543,390
- Term deposits	1,863,953,957	1,662,589,062
Legal entities	**1,206,238,193**	**910,722,982**
- Current/settlement accounts	806,226,749	637,507,527
- Demand deposits	53,246,389	50,754,191
- Term deposits	346,765,055	222,461,264
State and public organizations	**600,166,091**	**270,681,877**
- Current/settlement accounts	421,317,586	207,265,363
- Demand deposits	162,976,504	45,518,223
- Term deposits	15,872,001	17,898,291
Other	**59,231,857**	**38,748,463**
- Current/demand accounts	29,505,266	26,601,431
- Demand deposits	476,317	445,708
- Term deposits	29,250,274	11,701,324
Total customer accounts	**4,402,648,347**	**3,453,919,747**

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

The management currently does not monitor concentration of customer accounts per economic sectors. Therefore, related information is not disclosed in these financial statements. At 31 December 2018, the aggregate amount of the top 30 biggest customers is MNT 1,237,360,831 thousand (31 December 2017: MNT 818,650,820 thousand) or 28% of total customer accounts (31 December 2017: 24%).

At 31 December 2018, included in customer accounts are deposits of MNT 24,303,006 thousand (2017: MNT 10,169,462 thousand) held as collateral for irrevocable commitments under bank guarantee.

Interest rate analysis of customer accounts is disclosed in Note 41. Information on related party balances is disclosed in Note 47.

27 Other Borrowed Funds

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
(a)		
Borrowed funds under project		
Borrowed funds under Project /MNT/	283,821,469	365,213,958
Borrowed funds under Project /EUR/	394,699	749,063
Borrowed funds under Project /USD/	351,848	549,730
Total borrowed funds under projects	**284,568,016**	**366,512,751**
(b)		
Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	270,858,492	260,536,421
Trade finance from foreign banks and financial institutions		
Trade finance from foreign banks and financial institutions /USD/	122,442,026	104,241,184
Trade finance from foreign banks and financial institutions /EUR/	21,410,285	15,532,154
Trade finance from foreign banks and financial institutions /JPY/	13,577,630	-
Trade finance from foreign banks and financial institutions /CNY/	2,996,334	10,918,980
Trade finance from foreign banks and financial institutions /GBP/	-	155,833
Total borrowings from foreign banks and financial institutions	**431,284,767**	**391,384,572**
TOTAL	**715,852,783**	**757,897,323**

(a) Borrowed funds under project

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Government price stabilization program		
Housing mortgage program	161,558,852	247,279,456
Project loan of KFW bank	1,782,219	3,741,133
Other borrowing under project	1,321,079	581,579
Projects financed by Development Bank of Mongolia		
Project on national cashmere factories	36,127,923	-
MNCCI leather processing project	9,919,768	15,751,313
Funding for Asia-Europe meeting	-	15,242,618
Project 888 to support export and substitute import	7,719,637	15,043,458
Other borrowing under project	4,808,919	4,428,414
Project on meat production	3,955,772	4,256,210
Agriculture 2016 program	-	2,160,888
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	14,235,098	15,654,490
Borrowings under SME development and environment protection	-	194,596
Private sector development project loan 2, MNT, USD	-	15,824
Other government projects		
Project to support employment	20,016,730	26,140,600
Borrowings under Agriculture and Rural Development Project	18,911,045	1,152,766
Borrowings under SME industry support fund	2,923,663	12,526,518
Project 888 to support export and substitute import	747,953	-
Other borrowing under project	403,123	355,124
Student development program	128,509	1,987,754
Borrowings under 40000 Housing Unit Development program	7,726	-
Total	**284,568,016**	**366,512,751**

27 Other Borrowed Funds (continued)

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 1.0% to 6% p.a., while interest rate on most of the loans issued from these sources range between 5% and 13% 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.

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.

In 2018, the Bank participated in the Government program to support the national cashmere factories for providing below market working capital loan to produce raw materials through Development Bank of Mongolia and the interest rate of the funding is 10% p.a. with maturity date of 15 December 2019, The Bank can loans to the customers at advantageous interest rate of 13% p.a.

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.

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. During 2018, programs have ended as per the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

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.

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.

27 Other Borrowed Funds (continued)

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. During 2018, programs have ended as the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

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 Labour 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.

27 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 2018 in original currency	Principle balance as of 31 December 2018 in thousands of MNT
Government price stabilization program	Bank of Mongolia	Project loan of KFW bank	EUR	12/11/2012	12/25/2020	130,322	394,699
	Bank of Mongolia	Other borrowing under project	MNT	2/24/2015	5/9/2020	1,320,500,000	1,320,500
	Bank of Mongolia	Project to increase number of warehouses and to support development of intensive livestock	MNT	11/18/2013	12/31/2019	579,200	579
	Bank of Mongolia	Project loan of KFW bank	MNT	5/16/2013	12/27/2021	1,387,519,932	1,387,520
	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	12/31/2019	161,558,852,185	161,558,852
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Project 888 to support export and substitute import	MNT	8/28/2014	10/29/2019	7,719,637,370	7,719,637
	Development Bank of Mongolia	MNCCI leather processing project	MNT	8/22/2014	6/25/2021	9,919,768,192	9,919,768
	Development Bank of Mongolia	Other borrowing under project	MNT	6/12/2015	3/5/2019	1,876,631,976	1,876,632
	Development Bank of Mongolia	Projects to support export and substitute import /up to 300 billion/	MNT	9/28/2015	11/27/2020	2,932,286,889	2,932,287
	Development Bank of Mongolia	Project on meat production	MNT	3/25/2016	2/28/2020	3,955,771,823	3,955,772
	Development Bank of Mongolia	Project on national cashmere factories	MNT	7/5/2018	12/15/2019	36,127,923,035	36,127,923

27 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 2018 in original currency	Principle balance as of 31 December 2018 in thousands of MNT
Joint projects of Mongolian government and Japan International Cooperation	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	6/1/2028	14,235,098,329	14,235,098
Other government projects	Government	Borrowings under SME industry support fund	MNT	6/12/2015	1/10/2021	2,923,663,023	2,923,663
	Government	Project 888 to support export and substitute import (more than 2 billion)	MNT	8/28/2014	12/30/2019	747,953,183	747,953
	Government	Student development program	MNT	11/30/2016	11/30/2026	128,509,263	128,509
	Government	Borrowings under Agriculture and Rural Development Project	MNT	2/10/2011	10/1/2025	18,911,044,795	18,911,045
	Government	Project to support employment	MNT	2/8/2017	10/10/2019	20,016,729,545	20,016,730
	Government	Borrowings under 40000 Housing Unit Development program	MNT	2/27/2008	1/19/2022	7,725,718	7,726
	Government	Other borrowing under project	USD	4/1/2010	5/1/2027	133,108	403,123

27 Other Borrowed Funds (continued)

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank represent loans obtained from foreign banks and financial institution in the amount of USD 100,000 thousand on 27 September 2018 with maturity of 60 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).

During 2018, the Bank has fully repaid of USD 100,000 thousand borrowing with origination date of 15 July 2016 and maturity of 24 months and repaid in the amount of USD 268 thousand borrowing from USD 7,500 thousand.

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 2018 the Bank utilised MNT 159,380,055 thousand (31 December 2017: MNT 127,290,678 thousand) of related credit lines and issued loans for the same amount. International banks and financial institutions for the purpose of import financing of transactions of customers provide funding. 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 JPY, USD and EUR from foreign banks.

At 31 December 2018, the Bank has no breach on borrowings from foreign banks and financial institutions.

Refer to Note 46 for the disclosure of fair value of other borrowed funds. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 41.

28 REPO Arrangements

As of 31 December 2018, sale and repurchase agreements relate to placements from local banks and financial institutions, bearing interest rate ranging from 11.0% p.a. to 13.0% p.a. (2017: from 7.5% p.a. to 11.0% p.a) respectively, with original maturities ranging from 2 to 28 days (2017: from 7 to 941 days). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 12.

29 Other Liabilities

Other liabilities comprise the following:

In thousands of Mongolian Tugriks	**31 December 2018**	**31 December 2017**
Other financial liabilities at AC	**29,437,983**	**48,630,446**
Liabilities for settlements of transactions	15,906,110	28,354,420
Trade payable	4,728,750	4,796,332
Liabilities for loans sold to MIK with recourse	3,299,435	8,327,985
Other	5,503,688	7,151,709
Other non-financial liabilities	**13,748,901**	**3,610,230**
Payables to employees	5,363,580	1,675,272
Taxes payable other than on income	5,251,595	1,934,958
Dividend payable	3,133,726	-
Total other liabilities	**43,186,884**	**52,240,676**

During 2018, the Bank has not participated any of monetization transactions with MIK in 2018 for selling of mortgage loans with recourse.The balance in other liability as of 31 December 2018 has decreased by the repayments of related loans.

29 Other Liabilities (continued)

The increase of the payables to employees and dividend payable relates to dividend declared to share-holder of the Bank and revised “Employee payroll and bonus” policy.

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.

30 Subordinated Debt

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Subordinated loans from Golomt Financial Group	92,582,956	97,042,814
Total	**92,582,956**	**97,042,814**

According to the Shareholder’s resolution, subordinated loan obtained from Golomt Financial Group in 2017 is converted into ordinary shares on 28 December 2018 in the amount of MNT 12,000,000 thousand.

Subordinated loans as of the year ended 31 December 2018:

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

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. While the agree-ment 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 subordi-nated 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

30 Subordinated Debts (continued)

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.On 30 April 2014, Stanhope Investments, Golomt Bank and Bodi International LLC signed a transfer certificate. Bodi International LLC, the main shareholder of the Bank, purchased the loan from Stanhope Investments. 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.

In December 2018, the Bank converted MNT 12,000,000 thousand subordinated debt from Golomt Financial Group into ordinary shares of the Bank.

None of the other subordinated debt agreements had financial or other covenants as of 31 December 2018 and 31 December 2017. Information on related party balances is disclosed in Note 47.

31 Share Capital

In thousands of Mongolian Tugriks except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Preference shares**	**Total**
At 1 January 2017	**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**
New shares issued	5,173,444	5,173,444	69,826,556	50,000,000	125,000,000
Conversion of the subordinated loans	780,820	780,820	11,219,180	-	12,000,000
At 31 December 2018	**32,321,857**	**32,321,857**	**127,629,293**	**75,778,900**	**235,730,050**

The nominal registered amount of the Bank’s issued share capital is MNT 32,321,857 thousand (2017: MNT 26,367,593 thousand).

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

The number of ordinary shares issued in 2018 was 5,173,444 with par value MNT 1,000 and share premium represents the excess of contributions received over the nominal value of shares issued.

31 Share Capital (continued)

Ordinary shares

The total authorised number of ordinary shares is 32,321,857 shares (31 December 2017: 26,367,593 shares), with a par value of MNT 1,000 per share (2017: MNT 1,000 per share). Subordinated loan from Golomt Financial Group LLC in the amount of MNT 12,000,000 thousand was converted into ordinary shares and excess of contributions over nominal value at MNT 1,000 is recognised as share premium.

The following table shows issued shares during 2018:

Shareholder	Number of shares	Par amount	Subscrip-tion price per share	Date
Golomt Financial Group LLC	2,245,367	1,000	13,361	6/22/2018
Bodi International LLC	2,928,077	1,000	15,368	12/17/2018
Golomt Financial Group LLC	780,820	1,000	15,368	12/17/2018

On 17 December 2018, 780,820 fully paid shares of the Bank at MNT 1,000 each were issued to Golomt Financial Group LLC at the price of a subscription to the converted subordinated debt in the amount of MNT 15,368.45 per share. The amount of MNT 81,045,736 (MNT 29,997,072, MNT 42,754,633, MNT 11,219,180 respectively) thousand arising from the issuance of ordinary shares has been included in the share premium account. The new ordinary shares issued rank pari passu in all respect with the existing ordinary shares of the bank.

The shareholders of the Bank as of 31 December 2018 and 31 December 2017 and the percentages of ownership are as follows:

Shareholder	2018	2017
	Ownership (%)	**Ownership (%)**
Golomt Financial Group LLC	77.69%	83.76%
Bodi International LLC	9.06%	-
Swiss-Mo Investment A.G	8.14%	9.98%
Golomt Investment Co.,Ltd	4.02%	4.93%
ESOP	1.08%	1.33%
Total	**100%**	**100%**

Preferred shares

Mr.Zorigt, a business partner of Mr.Bayasgalan, holds 25,778,900 preferred shares with USD 15,000,000, which is equivalent to MNT 25,778,900 thousand issued on 19 December 2013 and terms are further amended on 26 December 2013.

Preferred shares are non-cumulative, perpetual and the agreement states that the Bank has a discretionary right to convert the preferred shares into ordinary shares based on Board of Director's approval.

Golomt Financial Group LLC, parent company of the Bank, agreed to purchase the preferred shares of Golomt Bank on 22 June 2018 in accordance with the shareholder's resolution on issuance of preferred shares dated 29 June 2018.

The Bank issued non-cumulative and perpetual preferred shares with nominal value of MNT 50,000,000 thousand, which is acquired by Golomt Financial Group LLC on 22 June 2018.

32 Interest Income and Expense

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	389,853,131	293,489,976
Debt securities at AC	5,223,007	-
Short-term investment securities	-	41,123,291
Investments held to maturity	-	12,619,867
Debt securities at fair value through profit or loss and available for sale	-	46,040,736
Due from other banks at AC	10,664,550	3,155,790
Cash and cash equivalents	11,832,603	12,417,998
Debt securities FVOCI	45,938,702	-
Reverse repurchase agreements at AC	341,298	372,197
Total interest income calculated using the effective interest method	**463,853,291**	**409,219,855**
Other similar income		
Loans and advances to customers at FVTPL	10,422,164	-
Debt securities FVTPL	19,685,473	-
Total other similar income	**30,107,637**	**-**
Total interest income	**493,960,928**	**409,219,855**
Interest and other similar expense		
Customer accounts	271,060,624	230,561,263
Other borrowed funds	28,154,692	36,996,420
Due to other banks	9,437,394	8,568,659
Subordinated loans	8,618,672	7,626,284
Repurchase agreements	5,983,774	3,476,881
Total interest and other similar expense	**323,255,156**	**287,229,507**
Net interest income / (Net interest expense)	**170,705,772**	**121,990,348**

The increase in the interest income from loans and advances to customers is due to increased amount of loans disbursed to customers in 2018. Further, interest income from cash and balances with central bank includes MNT 10,563,116 thousand (2017: MNT 11,403,260 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 2018.

Interest income includes approximately MNT 13,500,000 thousand (2017: MNT 8,700,000 thousand) of interest income, recognised on credit 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 2018 and 2017 in accordance with IFRS requirements.

33 Fee and Commission Income and Expense

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Fee and commission income		
Commissions on operations with plastic cards	25,517,747	19,476,085
Remittance and other service fees	11,311,608	8,572,030
Commissions on documentary business and guarantees	5,735,161	3,336,650
Account service fee and commissions	3,979,242	3,888,233
Brokerage and other service fee	845,507	377,126
Total fee and commission income	**47,389,265**	**35,650,124**
Fee and commission expense		
Card transaction expense	9,289,774	7,338,954
Bank service expense	2,352,103	1,891,041
Online transaction expense	559,770	382,746
Brokerage and other service fee	121,709	196,044
Total fee and commission expense	**12,323,356**	**9,808,785**
Net fee and commission income	**35,065,909**	**25,841,339**

34 Other Operating Income and Expenses

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Income from repayment of loans which were written off	15,650,555	1,266,457
Gain or loss on disposal of premises and equipment	(2,501,390)	12,751
Other	1,817,421	(288,752)
Total other operating income	**14,966,586**	**990,456**

35 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Note	31 December 2018	31 December 2017
Staff costs		44,649,282	30,642,006
Administrative expenses		20,940,597	16,039,618
Professional services		12,725,963	11,397,691
Depreciation of premises and equipment	22	9,757,418	8,762,817
Operating lease expense for premises and equipment		6,441,230	5,893,526
Advertising and marketing services		3,405,405	3,023,768
Amortisation of software and other intangible assets	21	2,647,120	1,619,599
Taxes (other than income tax)		1,988,797	1,419,818
Loan collection expenses		1,774,199	1,794,054
Travelling expenses		1,281,742	835,269
Transportation		1,183,079	914,492
Utilities		1,013,836	660,965
Entertainment		803,560	539,310
Voluntary and mandatory insurance		579,993	425,830
Property, plant and equipment written-off		-	45,225
Donations		23,351	1,000
Other		877,396	1,568,456
Total administrative and other operating expenses		**110,092,968**	**85,583,444**

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Staff costs consist of:		
Salaries, wages and bonus	39,104,231	26,716,973
Contribution to social and health fund	4,173,690	2,815,622
Staff training	795,651	650,223
Staff benefits	539,207	459,188
Pension fund	36,503	-
Total staff costs	**44,649,282**	**30,642,006**

36 Income Taxes

(a) Components of income tax expense / (benefit)

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

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Current tax	5,131,443	6,035,112
Deferred tax	16,922,117	(12,965,193)
Income tax expense/(credit) for the year	**22,053,560**	**(6,930,081)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

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 (2017: MNT 3 billion) of taxable income, and 25% (2017: 25%) on the excess of taxable income over MNT 3 billion (2017: MNT 3 billion) in accordance with Mongolian tax legislation.

36 Income Taxes (continued)

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Profit before tax	**75,599,800**	**(12,082,935)**
Theoretical tax charge at statutory rate (2018: 25%; 2017: 25%)	18,899,950	(3,020,733)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of income subject to lower rate	(450,000)	(450,000)
- Income which is exempt from taxation	(3,373,744)	(11,329,720)
- Income which is taxed at different rates	(410,568)	(912,990)
- Non-deductible expenses	1,396,340	742,311
- Write down of previously recognised deferred tax loss carry forwards	5,324,836	7,301,012
- Other	666,746	740,039
Income tax expense/(credit) for the year	**22,053,560**	**(6,930,081)**

Income from government securities, which is tax exempt per Mongolian legislation, has decreased in 2018 due to lower volume of government bond transactions compared to 2017. Further, the non-deductible expenses in 2018 relates to entertainment, reception and training expenses.

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

36 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2018 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	**31 December 2017**	**Effect of adopting IFRS 9 to equity**	**1 January 2018 adjusted**	**Credited/ (charged) to profit or loss**	**Credited to other compre-hensive in-come**	**31 December 2018**
Tax effect of deductible/(taxable) temporary differ-ences and tax loss carry forwards						
Loans and advances to customers - interest income on loans overdue more than 90 days	(10,514,987)	-	(10,514,987)	664,956	-	**(9,850,031)**
Fair valuation of securities at FVTPL	(99,338)	(13,920,863)	(14,020,201)	11,605,644	-	**(2,414,557)**
Fair valuation of equity securities at FVOCI	-	477,121	477,121	-	2,555,544	**3,032,665**
Credit loss allowance of securities at AC and FVOCI	-	557,989	557,989	(69,184)	-	**488,805**
Fair valuation of investment securities AFS	(13,443,742)	13,443,742	-	-	-	**-**
Fair value changes of derivative financial instruments	(8,818,365)	-	(8,818,365)	(20,326,640)	-	**(29,145,005)**
Loan and advances to customers	6,302,458	18,052,989	24,355,447	(11,572,606)	-	**12,782,841**
Prepaid income – loan origination fee	1,532,880	-	1,532,880	1,204,369	-	**2,737,249**
Impairment of buildings	5,039,406	-	5,039,406	5,995,135	-	**11,034,541**
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and pro-vision for non-current asset held for sale	-	-	-	1,912,404	-	**1,912,404**
Write down of previously recognised deferred tax loss carry forwards	5,400,541	-	5,400,541	(5,400,541)	-	**-**
Utilisation of previously recognised deferred tax loss carry forwards	5,324,836	-	5,324,836	(5,324,836)	-	**-**
Other	(274,760)	-	(274,760)	4,389,182	-	**4,114,422**
Net deferred tax asset/(liability)	**(9,551,071)**	**18,610,978**	**9,059,907**	**(16,922,117)**	**2,555,544**	**(5,306,666)**

36 Income Taxes (continued)

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)**

37 Dividends

	2018		**2017**	
In thousands of Mongolian Tugriks	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January				
Dividends declared during the year	-	8,660,088	-	-
Dividends paid during the year	-	(5,178,170)	-	-
Dividends payable at 31 December	**-**	**3,481,918**	**-**	**-**

Dividend per share was at MNT 70 (2017: Nil).

38 Net Debt Reconciliation

The table below sets out an analysis of the Bank'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 2017	**480,952,118**	**276,945,205**	**97,042,814**	**854,940,137**
Cash flows	79,539,919	(4,928,253)	(12,508)	**74,599,158**
Non cash transactions	(114,945,500)	-	(12,000,000)	**(126,945,500)**
Foreign exchange adjustments	(552,246)	(1,158,460)	7,552,650	**5,841,944**
Net debt at 31 December 2018	**444,994,291**	**270,858,492**	**92,582,956**	**808,435,739**

39 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	**2018**	**2017**
Change in value of:		
Available-for-sale investments:		
Gain less losses arising during the year	-	47,347,785
Gains less losses on investments in equity securities at fair value through other comprehensive income	(10,222,176)	-
Income tax recorded directly in other comprehensive income	2,555,544	(11,836,946)
Revaluation of premises and equipment	3,000,000	(5,242,377)
Other comprehensive income	**(4,666,632)**	**30,268,462**

40 Segment Analysis

The Bank’s main business comprises of the following reportable segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending. Mortgages – incorporating the provision of mortgage finance;

SME banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and other products to SME customers;

Corporate – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies;

Other – including central Treasury - Funding and centralised risk management activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities. Income and expenses that have not been allocated to the reportable segments as they are deemed to contribute to the overall performance of the Bank rather than a particular segment is also presented in the other segment.

40 Segment Analysis (continued)

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

	31 December 2018				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers (gross carrying amount)	1,418,123,857	674,851,230	1,263,648,935	-	**3,356,624,022**
Customer accounts	1,288,942,241	589,586,720	2,524,119,386	-	**4,402,648,347**

In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest income	132,566,766	111,883,089	164,296,922	85,214,151	**493,960,928**
Interest expense	(38,725,639)	(91,457,408)	(147,487,968)	(45,584,141)	**(323,255,156)**
Net internal FTP income	66,839,648	49,956,190	219,923,418	(336,719,256)	**-**
Net internal FTP expense	(104,180,106)	(34,747,819)	(175,876,172)	314,804,097	**-**
Net interest income	**56,500,669**	**35,634,052**	**60,856,200**	**17,714,851**	**170,705,772**
Credit loss allowance	(33,516,719)	(11,465,186)	(15,395,298)	(5,773,510)	**(66,150,713)**
Net interest income/(negative interest margin) after provision	**22,983,950**	**24,168,866**	**45,460,902**	**11,941,341**	**104,555,059**
Fee and commission income	9,196,503	11,047,048	27,030,904	114,810	**47,389,265**
Fee and commission expense	(39,973)	(2,589,171)	(7,359,336)	(2,334,876)	**(12,323,356)**
Net other non-interest income/expense	(1,650,792)	(926,934)	1,549,708	47,099,818	**46,071,800**
Administrative and other operating expenses	(16,053,853)	(16,961,405)	(62,423,257)	(14,654,453)	**(110,092,968)**
Profit before tax	**14,435,835**	**14,738,404**	**4,258,921**	**42,166,640**	**75,599,800**
Income tax expense/(credit)	(4,211,143)	(4,299,407)	(1,242,389)	(12,300,621)	**(22,053,560)**
Profit/(loss) for the year	**10,224,692**	**10,438,997**	**3,016,532**	**29,866,019**	**53,546,240**

Internal charges and transfer pricing adjustments have reflected in the performance of each business segment.

More specific information on the revenues from external customers for each product and services, or each group of similar products and services is not available and the cost to develop such information is high. Hence the Bank presents operating segments on the basis of three main segments.

40 Segment Analysis (continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	31 December 2017				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers (gross carrying amount)	1,069,728,879	524,467,181	819,394,892	-	**2,413,590,952**
Customer accounts	741,785,163	479,513,530	2,232,621,054	-	**3,453,919,747**

In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest income	145,588,657	41,007,342	106,922,225	115,701,631	145,588,657
Interest expense	(36,552,765)	(23,858,525)	(178,594,295)	(48,223,922)	(36,552,765)
Net internal FTP income	53,314,991	44,087,255	282,771,939	(380,174,185)	53,314,991
Net internal FTP expense	(132,550,672)	(25,956,017)	(140,634,934)	299,141,623	(132,550,672)
Net interest income	**29,800,211**	**35,280,055**	**70,464,935**	**(13,554,853)**	**29,800,211**
Provision for loan impairment	(32,629,679)	(5,535,531)	5,088,655	(335,004)	(32,629,679)
Net interest income/(negative interest margin) after provision	**(2,829,468)**	**29,744,524**	**75,553,590**	**(13,889,857)**	**(2,829,468)**
Fee and commission income	1,948,149	18,651,525	14,949,610	100,840	1,948,149
Fee and commission expense	(23,010)	(2,012,243)	(7,685,279)	(88,253)	(23,010)
Net other non-interest income/expense	5,788,772	(93,501)	6,972,428	(53,587,318)	5,788,772
Administrative and other operating expenses	(19,913,040)	(9,202,332)	(53,511,220)	(2,956,852)	(19,913,040)
Profit before tax	**(15,028,597)**	**37,087,973**	**36,279,129**	**(70,421,440)**	**(15,028,597)**
Income tax expense/(credit)	8,619,544	(21,271,542)	(20,807,635)	40,389,714	8,619,544
Profit/(loss) for the year	**(6,409,053)**	**15,816,431**	**15,471,494**	**(30,031,726)**	**(6,409,053)**

41 Financial Risk Management

The risk management within the bank is carried out with respect to financial risks, operational risk, compliance risk, counterparty and third party risk, reputational risk, technology risk, legal risks and as well as risks that emerge from time to time. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), 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.

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 defense" model in risk governance, where management is the first line of defense, the Risk management committee and the Chief risk officer are the second line of defense and Internal audit is the third line of defense.

Risk management is implemented by the executive level managers in accordance with risk management policy and risk limits approved by the Board. Internal audit division and Risk management division provide independent oversight to the implementation of control objects by the business units and employees, also report directly to the Board's Risk committee, Chief Executive Officer and Executive Committee that 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 Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

41 Financial Risk Management (continued)

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the credit division's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.

Scale of grade	Days past due
Excellent	0
Good	1 – 30
Satisfactory	31 – 60
Special monitoring	61 – 90
Default	>90

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected draw-downs on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, and it is equal to up to 2 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

41 Financial Risk Management (continued)

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Unlikely-to-pay: The borrower meets unlikeliness to pay criteria listed below:
    a. significant financial difficulty of the issuer or obligor;
    b. a breach of contract, such as a default or delinquency in interest or principal payments;
    c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
    d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
    e. the disappearance of an active market for that financial asset because of financial difficulties; or
- The borrower is more than 90 days past due on its contractual payments.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Credit Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

41 Financial Risk Management (continued)

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same homogeneous segments of the loan portfolio; and (iii) assessment based on external rating. The Bank performs an assessment on an individual basis for the following types of loans: individually significant loans, that is, individual borrower exposure is above MNT 1,000,000 thousand in stage two or three. The Bank performs an assessment on a portfolio basis for the following types of loans: (i) individual exposure is above MNT 1,000,000 thousand in stage one; (ii) consumer loans to individuals and loans to small and medium businesses. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses and other predictive information. The Bank performs an assessment based on external ratings for investment in debt securities as carried at AC and FVOCI and due from other banks.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Division. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (corporate, SME, consumer and mortgage), currency of exposure and product type. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future one year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses migration matrix statistical approach depending on the segment and days past due bucket to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

41 Financial Risk Management (continued)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product and seniority of the claim. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products. Collateral value after haircut is incorporated on LGD. If the collateral value after haircut is lower than EAD, the Bank recognizes a loss on difference between EAD and collateral value after haircut multiplied by (1 – Recovery Rate).

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines, credit cards issued to individuals and for financial guarantees is defined based on historical statistical analysis.

ECL measurement for cash and cash equivalent, mandatory reserves with the Bank of Mongolia. The ECL measurement for these instruments follows same method as due from other banks. But its in-significant for cash and mandatory reserves as these instruments have short lifetime of 14 days.

ECL measurement for due from other banks. The ECL measurement for due from other banks differs from other assets (loan, securities etc.). Current accounts have short lifetime which means expected loss is immaterial. For longer term placement, the Bank chooses highest possible credit rated banks with lower probability of default. For our bank, 70%-80% of due from other banks are placed in investment grade banks in average.

The Bank classifies the due from other banks by credit ratings into five grades. The following table shows credit rating range of each grade.

Scale of grade	Credit ratings
Excellent	Aaa – A3
Good	Baa1 – Ba3
Satisfactory	B1 – B3
Special monitoring	Caa1 – CA
Default	C

The Bank uses following criteria in defining SICR situation for due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year or reaching below investment grade
- Default status

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

41 Financial Risk Management (continued)

According to our bank's experience we never encountered loss due to other bank's default or bankruptcy. Nevertheless, we accept that there is possibility of default in future. But our own data is insufficient to account for that possibility. As such we have following differences in measuring PD, LGD, EAD for due from other banks.

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans, except that it includes credit rating of "C" and below, which is defined as "in default" by Agencies.

For probability of default (PD), the Bank uses Moody's report of corporate default rate by alphanumeric rating category for 12-month PD. We downscale 12-month PD to 1-day, to calculate more accurate ECL.

Average Cumulative Issuer-Weighted Global Default rates be Alphanumeric Rating, 1998-2016[1]

Rating	Horizon 1 year	Rating	Horizon 1 year
Aaa	0.000%	Ba1	0.470%
Aa1	0.000%	Ba2	0.765%
Aa2	0.000%	Ba3	1.472%
Aa3	0.047%	B1	2.164%
A1	0.073%	B2	3.213%
A2	0.049%	B3	5.360%
A3	0.058%	Caa1	5.159%
Baa1	0.135%	Caa2	10.841%
Baa2	0.178%	Caa3	20.448%
Baa3	0.263%	Ca-C	30.032%

For exposure at default (EAD), the Bank uses carrying amount at the time of calculation as an exposure at default.

For loss given default (LGD), historical data for loss given default analysis is also insufficient. Therefore, we use Moody's report of corporate recovery rate for LGD.

ECL measurement for investments in debt securities (Government bonds, Central bank bills and Corporate bonds). The ECL measurement for debt securities follows same steps as stated above which means it has same criteria for defining default and SICR as due from other banks. But it differs in calculating PD, LGD due to insufficient data. So we have following differences in measuring PD and LGD for debt securities.

The Bank classifies the debt securities by overdue days and credit ratings into five grades. The following table shows days past due and credit rating range of each grade.

Scale of grade	Days past due
Excellent	0
Good	1 – 30
Satisfactory	31 – 60
Special monitoring	61 – 90
Default	>90

The Bank uses same criteria in defining SICR situation for debt securities as due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year or reaching below investment grade
- Default status

[1] *Source: Annual Default Study: Corporate default rate and recovery rates, 1920-2016*

41 Financial Risk Management (continued)

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans. Except that it includes credit rating of “C” and below, which is defines as “in default”by Agencies.

For probability of default (PD), as the most debt securities are from sovereign sector issuer, the Bank uses Moody’s report[2] on one-year default rate of sovereign for 12-month PD, which is downscaled to 1 day same as due from other banks.

Issuer-Weighted Cumulative Sovereign Default Rates, 1998-2016[2]

Rating	1 years
Aaa	0.000%
Aa	0.000%
A	0.000%
Baa	0.000%
Ba	0.545%
B	2.764%
Caa-C	12.175%

Due to insufficient internal and external data sources, the bank uses corporate segment historical PD of loan portfolio for corporate or non-finance business sector debt securities.

For loss given default (LGD), the Bank uses “Moody’s data of Recovery rates for sovereign bond (1983-2016)” in measuring LGD for Sovereign sector. Due to insufficient internal and external data sources, the bank uses corporate segment historical LGD of loan portfolio for corporate or non-finance business sector debt securities.

ECL measurement for Reverse sale and repurchase agreements. The ECL measurement for reverse sale and repurchase agreements follows same method as debt securities. Only it is fully collateralized by the Bank of Mongolia treasury bills, meaning that it can fully recover from default. So ECL for reverse sale and repurchase agreements is insignificant.

Forward-looking information incorporated in the ECL models. The assessment ECLs incorporate supportable forward-looking information by using scorecard approach. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs.

As stated in the IFRS 9 requirements above, complex models are not necessary for all institutions. Given the data quality, historical data and environment, management has decided to apply forward-looking information on the total ECL and not on the single component of ECL (PD, LGD, EAD). The Bank performed an analysis on the relation of observed historical default rate and the macroeconomic variables, which resulted in not so significant relationship between default rate and the macroeconomic variables.

The approach that management have opted to implement at transition is a scorecard approach. This approach considers several macroeconomic indicators that are available and uses a duplicable process to apply forward-looking information. Using several reputable sources of information including Bank of Mongolia, Bloomberg and Trading Economics.

[2] *Source: Sovereign Default and Recovery Rates, 1983-2016*

41 Financial Risk Management (continued)

Using information obtained from the above sources, management performs a trend analysis and compares the historical information with the available forecasted data to determine whether the indicator represents a positive, negative, or stable trend. Each trend (positive, negative, stable) has a multiplier attached as follows:

- 0.6 for positive
- 1.1 for stable
- 1.6 for negative

The multipliers are based on historical economic evidence, which indicate that during a normal cycle of an economy, excluding recessions and excessive growth, during growth periods, losses within financial institutions experience a decrease of 40% while in a periods of stagnation, losses within financial institutions experience an increase of 60%. Based on that, a multiplier for growth periods are given a multiplier of .6 (1-40%) and a multiplier for periods of stagnation are given a multiplier of 1.6 (1+60%). The median of those two numbers is 1.1, which is applied to the stable economic situation.

Weightings of the various macroeconomic indicators are determined using management's expert judgement and are multiplied by the applicable multiplier above based on the trend of the individual indicator. Management then determine the weightings of the 3 scenarios, being base, upside, and downside using expert judgment of the overall economic conditions and business environment within Mongolia. The base scenario is always given the highest weighting as it is based upon 3rd party forecasted information and is the most likely scenario to occur. The upside and downside scenarios are then weighted accordingly per management's expert judgment as stated above.

For assets other than loans, such as debt securities and due from other banks, forward looking information is embedded in Moody's report of rating transitions and default. As it provides projections of probabilities, with conditions on issuer-specific information coupled with forward-looking macroeconomic views to assign probabilities of default, withdrawal, upgrade and downgrade to individual issuers, portfolio of issuers, or rating categories.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, (c) equity products, (d) commodity, and (e) financial instruments (including derivatives), all of which are exposed to general and specific market movements. Management sets limits for the key metrics of market risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. As such, the bank revises our contingency plan for a crisis, annually.

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, 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.

41 Financial Risk Management (continued)

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 Bank takes 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. In respect of currency risk, management sets limit on the level of exposure by currency and in total for both overnight and intra-day positions.

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 percent. 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 and 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

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.

41 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2018:

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	111,886,675	360,134,216	44,755,641	141,298,473	**658,075,005**
Mandatory cash balances with the Bank of Mongolia	273,804,528	143,346,523	-	37,921,841	**455,072,892**
Reverse sale and repurchase agreement	99,975,351	-	-	-	**99,975,351**
Due from other banks	34,157,595	494,170,990	1,948,699	55,860,508	**586,137,792**
Investments in debt securities	518,399,085	542,973	-	-	**518,942,058**
Investments in equity securities	74,469,292	23,600,830	66,068	7,557,498	**105,693,688**
Loans and advances to customers	2,593,348,849	566,193,642	15,887,899	8,293,354	**3,183,723,744**
Repossessed financial assets	35,687,446	-	-	-	**35,687,446**
Other financial assets	17,115,645	750,570	78,921	266,218	**18,211,354**
Total monetary financial assets	**3,758,844,466**	**1,588,739,744**	**62,737,228**	**251,197,892**	**5,661,519,330**
Monetary financial liabilities					
Due to other banks	2,038,128	9,628,126	387,099	136,713,374	**148,766,727**
Customer accounts					
-Current Accounts	789,145,218	618,109,750	13,064,893	60,025,743	**1,480,345,604**
-Demand Savings	495,975,150	145,163,140	9,600,600	15,722,566	**666,461,456**
-Time Savings	1,595,604,063	632,874,253	17,686,204	9,676,767	**2,255,841,287**
Other borrowed funds	271,054,777	406,314,515	21,909,528	16,573,963	**715,852,783**
REPO arrangements	151,343,018	-	-	-	**151,343,018**
Subordinated debt	-	92,582,956	-	-	**92,582,956**
Other financial liabilities	21,992,564	5,915,533	154,543	1,375,343	**29,437,983**
Total monetary financial liabilities	**3,327,152,918**	**1,910,588,273**	**62,802,867**	**240,087,756**	**5,540,631,814**
Derivatives	(51,512,338)	179,000,796	-	(2,135,747)	**125,352,711**
Net balance sheet position	**380,179,210**	**(142,847,733)**	**(65,639)**	**8,974,389**	**246,240,227**

41 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2017:

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	**249,076,345**
Reverse sale and repurchase agreement	-	-	-	-	**-**
Due from other banks	384,257	519,804,206	13,018,053	59,097,888	**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	6,801,476	**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**	**68,369,538**	**196,467,778**	**4,841,320,402**
Monetary financial liabilities					
Due to other banks	238,482,421	21,562,660	16,901,019	111,246,133	**388,192,232**
Customer accounts					
-Current Accounts	536,470,625	422,022,988	12,053,922	54,460,759	**1,025,008,295**
-Demand Savings	371,607,647	116,590,381	10,222,966	15,840,517	**514,261,511**
-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	**2,925,928,910**	**1,592,346,908**	**69,145,832**	**205,603,917**	**4,793,025,569**
Derivatives	**(326,259,713)**	**382,310,648**	**-**	**19,415,467**	**75,466,402**
Net balance sheet position	**109,275,567**	**4,982,636**	**(776,295)**	**10,279,328**	**123,761,235**

41 Financial Risk Management (continued)

The following table presents sensitivities of profit or loss and 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:

In thousands of Mongolian Tugriks	At 31 December 2018	At 31 December 2017
US Dollar strengthening by 15% (2017: strengthening by 15%)	(21,427,160)	747,395
US Dollar weakening by 15% (2017: weakening by 15%)	21,427,160	(747,395)
Euro strengthening by 15% (2017: strengthening by 15%)	(9,846)	(116,444)
Euro weakening by 15% (2017: weakening by 15%)	9,846	116,444
Other strengthening by 15% (2017: strengthening by 15%)	1,346,158	1,541,899
Other weakening by 15% (2017: weakening by 15%)	(1,346,158)	(1,541,899)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The principal objective of the Bank'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 Bank 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 Bank normally seeks to match its interest rate positions.

At 31 December 2018, if interest rates at that date had been 10% higher/(lower) (2017: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 24,624,023 thousand (2017: MNT 12,376,123 thousand) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2018.

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 2018, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 18,500,073 thousand higher/(lower) (2017: MNT 12,376,040 thousand higher/(lower)).

41 Financial Risk Management (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:

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 2018						
Financial assets	2,251,170,064	742,453,655	765,632,707	1,689,554,084	338,061,531	**5,786,872,041**
Financial liabilities	2,691,393,188	1,279,314,837	1,096,548,942	328,687,941	144,686,906	**5,540,631,814**
Net interest sensitivity gap at 31 December 2018	**(440,223,124)**	**(536,861,182)**	**(330,916,235)**	**1,360,866,143**	**193,374,625**	**246,240,227**
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**

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:

	2018				**2017**			
In % p.a.	**MNT**	**USD**	**EUR**	**Other**	**MNT**	**USD**	**EUR**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	4.5%	-	-	-	4.5%	-	-	-
Due from other banks	9.4%	2.5%	-	-	8.0%	4.8%	3.0%	-
Loans and advances to customers	16.5%	10.1%	7.0%	11.0%	16.8%	11.9%	8.3%	[illegible]
Investments in debt securities	11.2%	8.5%	-	-	11.0%	-	-	-
Reverse sale and repurchase agreements	9.0%	-	-	-	10.4%	-	-	-
Liabilities								
Due to other banks	6.3%	2.3%	-	2.8%	[illegible]	-	[illegible]	[illegible]
Customer accounts								
- Current/settlement accounts	2.2%	1.0%	0.6%	-	[illegible]	[illegible]	[illegible]	-
- Demand deposits	9.1%	2.4%	1.7%	1.5%	[illegible]	[illegible]	[illegible]	[illegible]
- Time deposits	12.1%	4.8%	3.0%	2.6%	[illegible]	[illegible]	[illegible]	[illegible]
REPO agreements	12.1%	-	-	-	[illegible]	-	-	-
Other borrowed funds	2.7%	3.4%	2.9%	2.5%	[illegible]	[illegible]	[illegible]	[illegible]
Subordinated debt	8.0%	-	-	-	[illegible]	[illegible]	-	-

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

Other price risk. The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank treasury. At 31 December 2018, if equity prices at that date had been 15% (2017: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 7,085,723 thousand (2017: MNT 16,873,908 thousand) lower (higher).

41 Financial Risk Management (continued)

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2017: no material impact).

Geographical risk concentrations. The Bank 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 2018 and 31 December 2017. A major part of the financial liabilities for 31 December 2018 and 31 December 2017 relates to Mongolia. The management believes that the Bank's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentration. Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Notes 13.

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

41 Financial Risk Management (continued)

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:

	2018	2017
31 December	36.68%	44.30%
Average during the period	38.14%	43.42%
Highest	45.31%	44.80%
Lowest	30.25%	41.50%

The table below shows the assets and liabilities as at 31 December 2018 and 31 December 2017 by their remaining contractual maturity.

The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

41 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2018 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)	658,075,005	-	-	-	-	**658,075,005**
Mandatory cash balances with the Bank of Mongolia	455,072,892	-	-	-	-	**455,072,892**
Reverse sale and repurchase agreement	100,024,645	-	-	-	-	**100,024,645**
Due from other banks	178,993,369	108,931,749	1,439,861	332,049,006	-	**621,413,985**
Investments in debt securities	252,589,204	65,259,552	64,737,750	48,573,417	296,800,396	**727,960,319**
Investments in equity securities	105,693,687	-	-	-	-	**105,693,687**
Loans and advances to customers	584,021,471	692,483,595	849,564,201	1,729,730,767	377,266,795	**4,233,066,829**
Derivative financial instruments-asset						
- inflows	3,498,792	29,655,699	-	88,554,016	11,067,130	**132,775,637**
- outflows	(131,816)	(313,155)	-	(6,977,955)	-	**(7,422,926)**
Repossessed financial assets	35,687,447	-	-	-	-	**35,687,447**
Other financial assets	5,242,022	3,632,538	5,704,776	1,245,756	2,386,262	**18,211,354**
Total Financial Asset	**2,378,766,718**	**899,649,978**	**921,446,588**	**2,193,175,007**	**687,520,583**	**7,080,558,874**
Liabilities						
Due to other banks	8,913,456	142,235,335	-	-	-	**151,148,791**
Customer accounts						
- Current accounts	1,484,455,001	-	-	-	-	**1,484,455,001**
- Demand deposits	663,886,551	102	-	-	-	**663,886,653**
- Term deposits	352,596,541	1,056,325,640	904,472,766	41,384,972	5,809	**2,354,785,728**
Other borrowed funds	3,693,570	112,484,449	260,950,441	323,411,736	72,400,080	**772,940,276**
REPO arrangements	151,503,289	-	-	-	-	**151,503,289**
Subordinated debt	-	80,756	-	-	134,490,596	**134,571,352**
Other financial liabilities	29,290,950	104,373	25,273	235	17,152	**29,437,983**
Total Financial Liabilities	**2,694,339,358**	**1,311,230,655**	**1,165,448,480**	**364,796,943**	**206,913,637**	**5,742,729,073**
Credit related commitments	437,679,684	-	-	-	-	**437,679,684**
Guarantee and LC	323,404,309	-	-	-	-	**323,404,309**
Credit Line undrawn	114,275,375	-	-	-	-	**114,275,375**
Net Gap	**(753,252,324)**	**(411,580,677)**	**(244,001,892)**	**1,828,378,064**	**480,606,946**	**900,150,117**
Accumulated Net Gap	**(753,252,324)**	**(1,164,833,001)**	**(1,408,834,893)**	**419,543,171**	**900,150,117**	

41 Financial Risk Management (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 deposits	514,261,512	-	-	-	-	**514,261,512**
- Term deposits	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**	**-**	**-**	**-**	**-**	**545,869,217**
Guarantee and ILC	271,496,607	-	-	-	-	**271,496,606**
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**	**254,197,394**
Accumulated Net Gap	**(494,579,308)**	**(884,776,864)**	**(1,262,325,920)**	**(248,122,487)**	**254,197,393**	

41 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2018:

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)	658,075,005	-	-	-	-	**658,075,005**
Mandatory cash balances with the Bank of Mongolia	455,072,892	-	-	-	-	**455,072,892**
Due from other banks	99,975,351	-	-	-	-	**99,975,351**
Investments in debt securities	178,993,369	107,463,299	1,409,022	298,272,102	-	**586,137,792**
Investments in equity securities	251,423,655	59,751,566	60,589,170	34,672,201	112,505,466	**518,942,058**
Loans and advances to customers	105,693,688	-	-	-	-	**105,693,688**
Reverse sale and repurchase agreement	457,639,660	542,263,708	697,929,739	1,273,787,964	212,102,673	**3,183,723,744**
Derivative financial instruments-asset						
- inflows	3,498,792	29,655,699	-	88,554,016	11,067,130	**132,775,637**
- outflows	(131,816)	(313,155)	-	(6,977,955)	-	**(7,422,926)**
Repossessed financial assets	35,687,446	-	-	-	-	**35,687,446**
Other financial assets	5,242,022	3,632,538	5,704,776	1,245,756	2,386,262	**18,211,354**
Total Financial Asset	**2,251,170,064**	**742,453,655**	**765,632,707**	**1,689,554,084**	**338,061,531**	**5,786,872,041**
Liabilities						
Due to other banks	8,913,456	139,853,271	-	-	-	**148,766,727**
Customer accounts						
- Current accounts	1,480,345,604	-	-	-	-	**1,480,345,604**
- Demand deposits	666,461,355	101	-	-	-	**666,461,456**
- Term deposits	351,350,396	1,028,134,577	840,914,023	35,439,788	2,503	**2,255,841,287**
Other borrowed funds	3,688,409	111,141,759	255,609,646	293,247,918	52,165,051	**715,852,783**
REPO arrangements	151,343,018	-	-	-	-	**151,343,018**
Subordinated debt	-	80,756	-	-	92,502,200	**92,582,956**
Other financial liabilities	29,290,950	104,373	25,273	235	17,152	**29,437,983**
Total Financial Liabilities	**2,691,393,188**	**1,279,314,837**	**1,096,548,942**	**328,687,941**	**144,686,906**	**5,540,631,814**
Liquidity gap arising from financial instruments	**(440,223,124)**	**(536,861,182)**	**(330,916,235)**	**1,360,866,143**	**193,374,625**	**246,240,227**
Accumulated Net Gap	**(440,223,124)**	**(977,084,306)**	**(1,308,000,541)**	**52,865,602**	**246,240,227**	

41 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2017:

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 Asset	**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 accounts						
- Current accounts	1,025,008,294	-	-	-	-	**1,025,008,294**
- Demand deposits	514,261,512	-	-	-	-	**514,261,511**
- Term deposits	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**	

41 Financial Risk Management (continued)

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's reliability.
The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

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

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Bank 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.

42 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% (2017:14%) 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 Chairman of the Board of Directors and Chief Accountant 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.

42 Management of Capital (continued)

The table below shows the regulatory capital structure prepared in accordance with the requirements of the Bank of Mongolia legislation based on IFRS financial statements:

	31 December 2018	31 December 2017
Core capital ratio	12.45%	9.45%
Risk weighted capital ratio	15.37%	14.41%

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Tier I capital		
Ordinary shares	32,321,857	26,367,593
Share premium	127,629,293	46,583,557
Non-cumulative perpetual preference shares	50,000,000	-
Retained earnings	202,842,670	218,533,692
Other components of equity	76,745,659	30,132,163
Less: Investment in financial institutions 75%	(11,324,670)	(9,163,369)
Total Tier I Capital	**478,214,809**	**312,453,636**
Tier II capital		
Subordinated loans	92,502,200	96,949,550
Preferred shares	25,778,900	25,778,900
Revaluation fund	6,855,242	3,961,907
Other reserves	(9,097,995)	40,379,750
Less: Investment in financial institutions 25%	(3,774,890)	(3,054,456)
Total Tier II Capital	**112,263,457**	**164,015,651**
Total capital/capital base	**590,478,266**	**476,469,287**

Investment in financial institutions relate to investment in shares of financial institutions, which are disclosed as investments in equity securities for sale in Note 13.

The equity capital of the Bank amounted to MNT 513,075,626 thousand as of 31 December 2018 (31 December 2017: MNT 391,689,039 thousand).

The Bank have complied with all externally imposed capital requirements as at the end of 2018 and 2017.

43 Contingencies and Commitments

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

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.

43 Contingencies and Commitments (continued)

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. The Bank is currently assessing the impact of the IFRS 16, new standard which is effective from 1 January 2019 on its financial statements.

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 27, there were no breaches of covenants that would require immediate repayment of the borrowings as of 31 December 2018.

Credit related commitments. To meet the financial needs of customers, 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 Bank.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

43 Contingencies and Commitments (continued)

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 2018	31 December 2017
Financial guarantees issued	57,208,731	105,122,056
Performance guarantees issued	204,692,164	126,176,645
Letters of credit	64,902,638	40,871,181
Undrawn credit lines	114,275,375	274,372,611
Total credit related commitments	**441,078,908**	**546,542,493**
Less: provision for impairment of credit related commitments	(3,399,224)	(673,275)
Total credit related commitments	**437,679,684**	**545,869,218**

For the purpose of ECL measurement credit related commitments are included in Stage 1.

Movements in the expected credit loss allowance for loan impairment of loans to legal entities and individuals during 2018 of are as follows:

In thousands of Mongolian Tugriks	Financial guarantees issued	Performance guarantees issued	Letters of credit	Total
Provision for loan impairment at 1 January 2017	**-**	**673,275**	**-**	**673,275**
Adoption of IFRS 9:				
– remeasurement for expected credit losses, net of tax	1,570,341	1,462,918	86,144	**3,119,403**
(Recovery of)/provision for impairment during the year	(1,022,470)	624,646	4,370	**(393,454)**
Expected credit loss allowance at 31 December 2018	**547,871**	**2,760,839**	**90,514**	**3,399,224**

Movements in the expected credit loss allowance for loan impairment of loans to legal entities and individuals during 2017 of are as follows:

In thousands of Mongolian Tugriks	Performance guarantees issued
Provision for loan impairment at 1 January 2017	**793,072**
(Recovery of) impairment during the year	(119,797)
Expected credit loss allowance at 31 December 2017	**673,275**

Letters of credit and guarantees (including standby letters of credit) commit 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.

43 Contingencies and Commitments (continued)

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Please refer to Note 4.23 for accounting policy of performance guarantee.

As of 31 December 2018, management concluded that provision for credit related commitments in the amount of MNT 3,399,224 thousand (31 December 2017: MNT 673,275 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 455,072,892 thousand as of 31 December 2018 (31 December 2017: MNT 395,029,289) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

As of 31 December 2018, Bank of Mongolia treasury bills in amount of MNT 151,006,902 thousand (31 December 2017: MNT 25,291,700 thousand) (Note 11).

Correspondent accounts with other banks include current account of USD 100,000 thousand (31 December 2017: USD 100,000 thousand matured on 15 July 2018) with foreign banks, pledged as collateral for the loans obtained from foreign banks (refer to Note 10 and Note 29).

To meet the financial needs of customers, 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 Bank.

44 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 Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

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

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

In thousands of Mongolian Tugriks	**31 December 2018**	**31 December 2017**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	132,775,637	75,624,570
- Financial liabilities at fair value through profit or loss	(7,422,926)	(158,168)
Foreign exchange forwards and swaps, net fair value	**125,352,711**	**75,466,402**

In thousands of Mongolian Tugriks	**31 December 2018**	**31 December 2017**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	263,317,677	385,806,956
- USD payable on settlement (-)	(84,316,881)	(3,496,308)
- MNT receivable on settlement (+)	153,478,378	3,499,084
- MNT payable on settlement (-)	(204,990,716)	(329,758,797)
- Other currencies receivable on settlement (+)	27,034,648	19,415,467
- Other currencies receivable on settlement (-)	(29,170,395)	-
Net fair value of foreign exchange forwards and swaps	**125,352,711**	**75,466,402**

Derivative financial instruments in amount of MNT 93,418,196 thousand are related to unrealized gain from long-term and short-term swaps and are classified as financial assets at FVTPL.

Financial assets of MNT 92,643,191 thousand as at 31 December 2018 (31 December 2017: MNT 47,695,568 thousand) relates to a long-term cross currency interest rate exchange contract with the Bank of Mongolia in the amount of USD 100,000 thousand on 28 September 2018 maturing on 27 September 2023 and in the amount of USD 7,500 thousand on 23 October 2017 with maturity of 15 September 2025. Long-term currency swap with carrying amount of MNT 47,695,568 thousand was matured on 18 July 2018 and it resulted realized loss MNT 3,121,668 thousand which is disclosed in “Gain less losses from trading in foreign currency and precious metal” in profit or loss.

On 28 September 2018, the Bank entered a long term cross currency interest rate swap with Bank of Mongolia and gains less losses from financial derivative resulted MNT 84,037,389 thousand. Day 1 gain of MNT 59,176,794 thousand represent gains on initial recognition of this long term at favorable condition.

Fair value increase during the period of MNT 91,833,191 thousand (2017: MNT 54,321,290 thousand) relates to above mentioned long term swaps. Remaining amount of gains is related to short-term swaps.

45 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 Bank'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 Bank 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.

45 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:

	2018				2017			
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								
Investments in debt securities at FVTPL	7,463,280	-	111,962,492	**119,425,772**	-	-	-	**-**
Investments in debt securities at FVTOCI	537,944	-	365,146,307	**365,684,251**	-	-	-	**-**
Investments in equity securities at FVTPL	32,894,926	-	-	**32,894,926**	-	-	-	**-**
Investments in equity securities at FVTOCI	14,343,224	-	58,455,538	**72,798,762**	-	-	-	
Financial assets at fair value through profit or loss	-	-	-	**-**	249,076,344	-	-	**249,076,344**
- Debt	-	-	-	**-**	234,686,513	-	-	**234,686,513**
- Equity	-	-	-	**-**	14,389,831	-	-	**14,389,831**
Investment securities available for sale	-	-	-	**-**	101,474,901	-	117,142,087	**218,616,988**
- Debt	-	-	-	**-**	-	-	47,624,997	**47,624,997**
- Equity	-	-	-	**-**	101,474,901	-	69,517,090	**170,991,991**
Loan and advances at FVTPL	-	-	126,456,427	**126,456,427**	-	-	-	**-**
Repossessed financial assets	-	-	35,687,446	**35,687,446**	-	-	44,660,926	**44,660,926**
Derivative financial instruments-asset	-	125,352,711	-	**125,352,711**	-	75,466,402	-	**75,466,402**
Non-financial assets								
Premises	-	-	100,588,047	**100,588,047**	-	-	116,837,207	**116,837,207**
Investment properties	-	-	34,293,822	**34,293,822**	-	-	57,505,587	**57,505,587**
Total assets recurring fair value measurements	**55,239,374**	**125,352,711**	**832,590,079**	**1,013,182,164**	**350,551,245**	**75,466,402**	**336,145,807**	**762,163,454**

45 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 2018 and 31 December 2017:

In thousands of Mongolian Tugriks	2018 Fair value	2017 Fair value	Valuation technique	Inputs used
Other financial assets				
Financial derivatives	125,352,711	75,466,402	Interest rate parity theory	Mongolian Eurobond yield, Policy rate, US treasury bill yield, US LIBOR 12M, Mongolia and US CPI forecast
Total recurring fair value measurements at level 2	**125,352,711**	**75,466,402**		

As of 31 December 2017, fair value measurement was variable 12 months LIBOR rate and policy rate based on forecast of internal researchers in valuation technique for level 2 recurring fair value measurement. During 2018, the Bank changed inputs to actual and constant 12 months LIBOR rate and policy rate to calculate MNT and USD cashflow. The Bank also used Yield of Mongolian government Eurobonds maturing in 2024, denominated in USD, to discount MNT cashflow and Yield of US Treasury bills to discount USD cashflow in the fair value measurement date.

Financial assets

Equity securities, which are classified as Level 1 for fair value measurement purposes, mostly relate to the Bank's investment in a joint stock companies established in Mongolia in the amount of MNT 47,238,150 thousand (31 December 2017: MNT 101,474,901 thousand of investment securities available for sale, MNT 14,389,831 thousand of investment securities fair value through profit or loss) are disclosed in Note 13 and Note 16. Companies are listed in the Mongolian Stock exchange and Foreign Stock exchange. As of 31 December 2017, 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.

Derivative financial instruments, which are classified as level 2 for fair value measurement purposes, in amount of MNT 93,418,196 thousand (31 December 2017: MNT 75,466,402 thousand) are related to unrealized gain from long-term and short-term swaps and are classified as financial assets at FVTPL.

Investments in debt securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 477,108,799 thousand (31 December 2017: MNT 234,686,513 thousand and MNT 47,624,997 thousand, which were classified as level 1 and level 3 respectively) are related to treasury bills of Bank of Mongolia and MIK bonds.

Investments in equity securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 58,455,538 thousand (31 December 2017: MNT 69,517,090 thousand are classified as investment securities available for sale) are related to unquoted financial investments in corporate and investments in investment funds. Management applied valuation technique to determine the fair value as at year end which is based on price per net asset of similar company which is listed in Mongolian Stock Exchange.

If the market price of debt and equity 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 47,710,880 thousand and 5,845,554 thousand (2017: MNT 4,762,500 thousand and MNT 6,917,091) respectively.

45 Fair Value Disclosures (continued)

Repossessed financial assets, which are classified as level 3 for fair value measurement purposes, relate to the shares in a company (refer to Note 23) 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 3,568,745 thousand (2017: MNT 4,466,093 thousand).

The methods and significant assumptions applied in determining the fair value of premises were 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.

Non-financial assets at 31 December 2018:

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	100,588,047	Market comparison method	Market prices with appropriate adjustments, discounts/ haircuts	1,575 - 7,680	10%	10,058,805
Investment properties	34,293,822	Market comparison method	Market prices with appropriate adjustments, discounts/ haircuts	1,250-6,300	10%	3,429,382
Total recurring fair value measurements at level 3	**134,881,869**					**13,488,187**

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%	11,683,721
Investment properties	57,505,587	Market comparison method	Market rental prices with appropriate adjustments, discounts/haircuts	133-3,712	10%	5,750,559
Total recurring fair	**174,342,794**					**17,434,280**

**value meas-
urements at
level 3**

45 Fair Value Disclosures (continued)

(b) Non-recurring fair value measurements

The Bank 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 2018.

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq.m)	Sensitivity of fair value measurement
Non-current assets held for sale	34,777,089	Market comparison method	Market sales/rental prices with appropriate adjustments, discounts/haircuts	36.2 – 4,680	3,477,710

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)	Sensitivity of fair value measurement
Non-current assets held for sale	52,556,417	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	365 - 5,679	5,255,642

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

Level 3 valuations are reviewed on a yearly basis by the Bank'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.

45 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 2018 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)	**114,855,783**	**543,219,222**	-	**658,075,005**
Cash on hand	114,855,783	-	-	114,855,783
Current account with the central bank	-	543,219,222	-	543,219,222
Mandatory cash balances with the Bank of Mongolia	**-**	**455,072,892**	-	**455,072,892**
Reverse sale and repurchase agreement	**-**	**99,975,351**	-	**99,975,351**
Due from other banks	**-**	**586,137,792**	**-**	**586,137,792**
Correspondent accounts with other banks				
Domestic	-	19,540,634	-	19,540,634
Foreign	-	153,173,299	-	153,173,299
Short term placements with other banks				
Placements with other banks with original maturities of more than three months	-	413,423,859	-	413,423,859
Loans and advances to customers	**-**	**-**	**3,267,646,459**	**3,057,267,317**
Corporate loans	-	-	1,461,653,176	1,341,363,369
Loans to small and medium business	-	-	706,029,079	618,553,082
Consumer loans to individuals	-	-	874,681,019	857,124,434
Mortgage loans to individuals	-	-	225,283,185	240,226,432
Debt securities at AC	**-**	**33,832,035**	-	**33,832,035**
Other financial assets	**-**	**18,211,354**	-	**18,211,354**
Total financial assets carried at amortized cost	**114,855,783**	**1,736,448,646**	**3,267,646,459**	**4,908,571,746**

45 Fair Value Disclosures (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 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**	**2,365,472,748**	**3,696,962,994**

45 Fair Value Disclosures (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 2018 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**148,766,727**	**-**	**148,766,727**
Short-term placements of other banks	-	10,421,840	-	10,421,840
Long-term placement of other banks	-	138,344,887	-	138,344,887
REPO Arrangements				
Sale and repurchase agreements with other banks	-	151,343,018	-	151,343,018
Customer Accounts				
State and public organisations	**-**	**600,166,091**	**-**	**600,166,091**
- Current/settlement accounts	-	421,317,586	-	421,317,586
- Demand deposits	-	162,976,504	-	162,976,504
- Term deposits	-	15,872,001		15,872,001
Legal entities	**-**	**1,206,238,193**	**-**	**1,206,238,193**
- Current/settlement accounts	-	806,226,749	-	806,226,749
- Demand deposits	-	53,246,389	-	53,246,389
- Term deposits	-	346,765,055	-	346,765,055
Individuals	**-**	**2,537,012,206**	**-**	**2,537,012,206**
- Current/settlement accounts	-	223,296,003	-	223,296,003
- Demand deposits	-	449,762,246	-	449,762,246
- Term deposits	-	1,863,953,957	-	1,863,953,957
Other	**-**	**59,231,857**	**-**	**59,231,857**
- Current/settlement accounts	-	29,505,266	-	29,505,266
- Demand deposits	-	476,317	-	476,317
- Term deposits	-	29,250,274	-	29,250,274
Other borrowed funds	**-**	**715,852,783**	**-**	**715,852,783**
Provision for credit related commitment	**-**	**3,399,224**	**-**	**3,399,224**
Subordinated debt	**-**	**92,582,956**	**-**	**92,582,956**
Other financial liabilities	**-**	**29,437,983**	**-**	**29,437,983**
Total financial liabilities carried at amortized cost	**-**	**5,544,031,038**	**-**	**5,544,031,038**

45 Fair Value Disclosures (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**

46 Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Mongolian Tugriks	Amortized cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with central bank (other than mandatory reserve)	**658,075,005**	**-**	**-**	**-**	**658,075,005**
Cash on hand	114,855,783	-	-	-	114,855,783
Cash balances with the central bank (other than mandatory reserve)	543,219,222	-	-	-	543,219,222
Mandatory cash balances with the Bank of Mongolia	**455,072,892**	**-**	**-**	**-**	**455,072,892**
Investments in debt securities	**33,832,035**	**119,425,772**	**365,684,251**	**-**	**518,942,058**
Investments in equity securities	**-**	**32,894,926**	**-**	**72,798,762**	**105,693,688**
Reverse sale and repurchase agreement	**99,975,351**	**-**	**-**	**-**	**99,975,351**
Due from other banks	**586,137,792**	**-**	**-**	**-**	**586,137,792**
Correspondent accounts with other banks:					
Domestic	19,540,634	-	-	-	19,540,634
Foreign	153,173,299	-	-	-	153,173,299
Placements with other banks with original maturities of more than three months	413,423,859	-	-	-	413,423,859
Loans and advances to customers	**3,057,267,317**	**126,456,427**	**-**	**-**	**3,183,723,744**
Corporate loans	1,341,363,369	-	-	-	1,341,363,369
Loans to small and medium business	618,553,082	-	-	-	618,553,082
Consumer loans to individuals	857,124,434	-	-	-	857,124,434
Mortgage loans to individuals	240,226,432	-	-	-	240,226,432
Mortgage loans to be sold to MIK with recourse	-	126,456,427	-	-	126,456,427
Derivative financial instruments-asset	**-**	**125,352,711**	**-**	**-**	**125,352,711**
Repossessed financial assets	**-**	**-**	**-**	**35,687,446**	**35,687,446**
Other financial assets	**18,211,354**	**-**	**-**	**-**	**18,211,354**
Receivables on cash and settlements services	2,796,705	-	-	-	2,796,705
Receivable from individuals	3,013,739	-	-	-	3,013,739
Receivable from companies	19,193,718	-	-	-	19,193,718
Other financial assets	1,464,870	-	-	-	1,464,870
Less: Provision for impairment	(8,257,678)	-	-	-	(8,257,678)
Total Financial Assets	**4,908,571,746**	**404,129,836**	**365,684,251**	**108,486,208**	**5,786,872,041**

46 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	110,906,509	-	-	-	-	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 original 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 assets	**-**	**44,660,926**	**-**	**-**	**-**	**44,660,926**
Other financial assets	**24,397,065**	**-**	**-**	**-**	**-**	**24,397,065**
Receivables from companies	9,627,664	-	-	-	-	9,627,664
Receivable from individuals	426,874	-	-	-	-	426,874
Receivables on cash and settlements services	7,890,670	-	-	-	-	7,890,670
Other financial assets	6,451,857	-	-	-	-	6,451,857
Total Financial Assets	**4,245,558,955**	**263,277,914**	**249,076,344**	**75,466,402**	**83,407,188**	**4,916,786,803**

47 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 Bank 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 Bank’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 sold 100% shares of Golomt Capital LLC, refer to Note 19.
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 2018 and 31 December 2017, refer to Note 1.

47 Related Party Transactions (continued)

At 31 December 2018, the outstanding balances the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Gross amount of loans and advances to customers (effective interest rate 8% - 22%)	2,927,204	22,930,115	76,115,330	**101,972,649**
Derivative financial instrument (notional amount: MNT 92,502,200)	-	29,635,230	-	**29,635,230**
Customer accounts (contractual interest rate 0% - 16.1%)	1,843,336	477,468	2,049,646	**4,370,450**
Subordinated debts (contractual interest rate 8%)	-	92,582,956	-	**92,582,956**

At 31 December 2017, 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% - 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**

47 Related Party Transactions (continued)

Movement in the loans and advances to the Bank's related party at 31 December 2018 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	**3% - 23.4%**	**0% - 3%**	**0% - 22.8%**	
Loans to customers				
Loans to customers as at 1 January 2018	1,812,242	-	81,942,998	**83,755,240**
Loans to customers issued during the year	2,474,493	26,262,841	94,112,722	**122,850,056**
Loans to customers repaid during the year	(1,386,695)	(3,214,936)	(100,478,449)	**(105,080,080)**
Exchange difference	27,164	(117,790)	538,059	**447,433**
Loans to customers as at 31 December 2018	**2,927,204**	**22,930,115**	**76,115,330**	**101,972,649**

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	Entities under common control	Total
Contractual interest rate	**6% - 23.4%**	**N/A**	**3% - 22.8%**	
Loans to customers				
Loans to customers as at 1 January 2017	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 2017	**1,812,242**	**-**	**81,942,998**	**83,755,240**

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 31 December 2018 and 31 December 2017, as management believes that such provision is not necessary.

47 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 20). 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 2018 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	**0% - 15%**	**0% - 1.2%**	**0% - 12%**	
Customer accounts				
Customer accounts as at 01 January 2018	1,752,642	1,149,647	1,997,245	**4,899,534**
Customer accounts received during the year	12,450,987	176,976,243	695,714,155	**885,141,385**
Customer accounts repaid during the year	(12,261,336)	(177,685,795)	(695,734,124)	**(885,681,255)**
Exchange difference	(98,957)	37,373	72,370	**10,786**
Customer accounts as at 31 December 2018	**1,843,336**	**477,468**	**2,049,646**	**4,370,450**

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)	**(80,045)**
Customer accounts as at 31 December 2017	**1,752,642**	**1,149,648**	**252,290**	**1,744,955**	**4,899,535**

47 Related Party Transactions (continued)

The income and expense items with the Bank's related parties for the year ended 31 December 2018 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Interest income	203,574	-	8,646,327	**8,849,901**
Interest expense	100,987	8,628,729	42,887	**8,772,603**
Fee and commission income	2,252	1,710	6,248	**10,210**

The income and expense items with the Bank's related parties for the year ended 31 December 2017 are 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**

Cost of services received by the Bank from its related parties as of the year ended 31 December 2017 are 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**

The bank's sale of properties, plant and equipment to its related parties during 2018 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Building	-	-	-	**-**
Office equipment and computers	-	-	60,099	**60,099**

47 Related Party Transactions (continued)

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
Building	-	-	-	12,853,572	**12,853,572**
Office equipment and computers	-	-	9,660	-	**9,660**

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	31 December 2018	31 December 2017
Guarantee		
Bank guarantees as at 01 January	**-**	**13,124**
Guarantees issued / exchange revaluation	2,314,813	-
Guarantee closed	(525,435)	(13,124)
Total credit related commitments	**1,789,378**	**-**
Less: provision for impairment of credit related commitments	(68,944)	-
Total credit related commitments	**1,720,434**	**-**

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

In thousands of Mongolian Tugriks	31 December 2018	31 December 2017
Salaries	2,180,661	2,283,903
Bonuses	579,700	61,665
Social security contributions	331,243	258,012
Total	**3,091,604**	**2,603,580**

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.

48 Event after the End of the Reporting period

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

49 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

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

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 and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Classification of financial assets. Financial assets have 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. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Bank intends to sell in the near term. The Bank's loans and receivables comprise of 'Receivables from Receivership',' Receivable for premium contributions', 'Government securities' and 'cash and cash equivalents' in the statement of financial position.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.
The primary factors that the Bank 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 counterparty experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

Due to small number of receivables and other financial assets, the Bank performs individual assessment on all financial assets, i.e. the Bank assesses whether objective evidence of impairment exists individually for all financial assets. If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, this asset is included in the collective assessment. As of 31 December 2017, no impairment provision based on the collective assessment is considered necessary.

49 Accounting Policies applicable before 1 January 2018 (Continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognized 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.

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 (such as an improvement in the debtor's credit rating), 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.

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

Investment securities available for sale are carried at fair value. If fair value of such investments is not reliably determinable they are stated at cost and regularly tested for impairment.
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.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when 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.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual 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.

49 Accounting Policies applicable before 1 January 2018 (Continued)

Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of 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 accrual 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. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

50 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
AFS	Available For Sale
ALCO	The Asset and Liability Committee
BOM	Bank of Mongolia
DBM	Development Bank of Mongolia
CCF	Credit Conversion Factor
EAD	Exposure at default
ECL	Expected Credit Loss
EIR	Effective interest rate
FRC	Financial Regulatory Commission of Mongolia
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign exchange
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
LGD	Loss given default
L&R	Loans and Receivables
MIK	Mongolian Mortgage Corporation
MNT	Mongolian Tugriks
MNCCI	Manufacturing and Processing of Leather Products
OCI	Other Comprehensive Income
PD	Probability of Default
RMBS	Residential mortgage-backed securities
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments’ cash flows represent Solely Payments of Principal and Interest
VaR	Value at risk