Annual report 2016

GOLOMT BANK

Investing for a brighter future

Contents

Company Profile

Golomt Bank, a leading private bank founded in 1995, is a one of the systematically-important banks in Mongolia with total assets of MNT4,7 trillion and total deposits of MNT 2,8 trillion.

Market share by total assets (as of YE2016):
- **#1 by total deposits, with share of 24.4%**
- **#3 by total assets, with share of 18.4 percent**

Golomt Bank operates with a well-balanced presence in all three market segments: Corporate, SME and Retail. It is the best performing corporate bank with investment banking arm, the leader in SME financing and development, and the largest urban-retail bank in Mongolia.

The Bank has a network with over 80 international financial institutions in 25 countries, and is expanding its cooperation with international partners on trade & export finance, development projects, SME and green financing.

Golomt Bank has been pioneering in innovative products and services. With its strong retail platform, the Bank is delivering most up-to-date e-banking, mobile banking, ATMs, and major payment cards.
The Bank's accomplishments, excellence, culture and loyalty established over time instilled the Golomt name as a well-recognized brand in the home market.

1770 *employees*

Male employees **30%**

Female employees **70%**

647000 *clients*

100 *service points*

Golomt Bank Vision and Mission Re-defined

Vision: MONGOLIA'S GLOBAL BENCHMARK

Moving forward, we will be leading the way from learners to practitioners. We will create new banking business practices and standards that are unique and benchmarked around the region.

Mission: THE GENESIS OF PROSPERITY

We design and deliver services that help people realize their dreams, solve their challenges and help them and the country to prosper. We will be addressing both client needs as well as social issues at its roots. We maintain socially responsible manner and will lead in spreading the same culture in the Mongolian society.

Business Model: CUSTOMER CENTRIC

We believe that with "Customer Centered" approach, we will be able to serve our customers more effectively with minimal procedure, deliver the products and services tailored to their needs and wishes, and accordingly increase the customer satisfaction, which in turn will strengthen our position in the market in terms of financials and brand image.

Message from the Chairwoman

Dear shareholders, valued customers, partners and colleagues,

2016 was a challenging year for Mongolia, experiencing historically high budget deficit and currency depreciation, among others, and followed by negative change in country rating. Despite the economic downturn, Golomt Bank was able to overcome these circumstances, and in fact, strengthened its market position in 2016. The Bank's market share in terms of total assets and customer deposits have grown to 19% and 21% respectively.

In 2016, Golomt Bank re-defined its vision and mid-term strategy. The new vision is to become "Mongolia's Global Benchmark" in banking. Under this prospect, our decisions and actions will be aimed at achieving global best standards in all aspects. We understand and acknowledge that this will require even greater responsibility, more effort and better governance, and we are fully committed to be the genesis of prosperity for the society we live in - according to our mission.

One of the key decisions of the Board in 2016 was appointing new Chief Executive Officer, and welcoming the new Executive Management team formed by the new CEO. The Board has no doubt that the new management team have the necessary skills, expertise and determination to achieve the Bank's mid-term strategic goals, and further strengthen its position as the leading player in the Mongolian financial sector.

During the last few years, the Bank has been undertaking reorganization and reformative actions to better streamline its business focus and operations. As part of this process, the number of management committees has been reduced, resulting in significant improvement in decision making speed and responsibility culture within the Bank. Also in line with the new vision and mid-term plans, the Board unanimously approved a major business process reengineering project initiated by the Management Team, and supported the implementation of a new "Customer centric business model".

As the dynamic environment and global FINTECH trends excite us, we are expanding our digital platform and product offerings. To ensure smooth, secure and reliable services, we enhanced our risk management and operational capacity. In this regard, another major decision at the Board and top management level was the approval of new Risk Appetite Statement/Framework of the Bank which reflect the updates of the risk metrics, risk assessment and management policies.

As 2017 continues, we have already begun to see the positive outcome of our previous efforts, and expect that the results will be more visible to our customers and stakeholders in years of 2017 and 2018 onward along with the full implementation of our mid-term strategy.

For 2017, we set a simple but ambitious goal: To increase the value proposition of the Bank through reliable, sustainable and innovative operations, with products and services that exceed customers' expectations, and being the professional and trusted financial advisor and reliable partner to our customers.

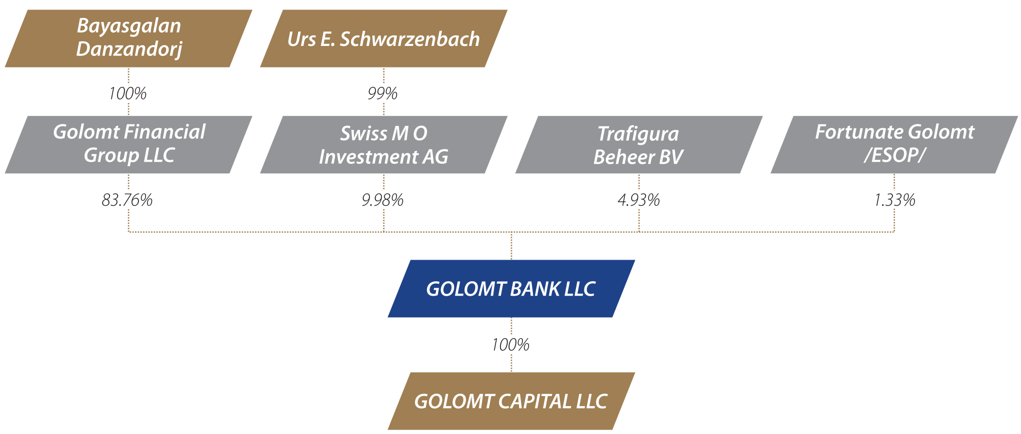
In setting our goals, we emphasize a holistic and realistic view. While being ambitious, we always keep close attention to the quality of our assets, operational efficiency, compliance and risk management.

The Board of Golomt Bank expresses its full commitment to supporting the execution of the mid-term strategic plans and goals the Banks set forth to creating increased value for all stakeholders and ensuring sustainable business for the long-run.

Munkhtsetseg Chultem
Chairwoman of the Board of Directors

Shareholding Structure

Shareholders



- Golomt Financial Group (GFG) is a group holding company and the major shareholder of the bank. It holds equity investments in financial sector businesses including banking, insurance and some capital market initiatives. GFG is solely owned by Mr.Bayasgalan Danzandorj, who is one of the founders and the former CEO and Chairman of Golomt Bank.
- Swiss-MO Investments AG is an investment fund, holds equity interests in Intex Exchange, airports, airlines and hotel businesses. It is mainly owned by leading Swiss philanthropist, investor, Mr.Urs Ernst Schwarzenbach.
- Trafigura Beheer B.V. is the 3rd largest crude oil trader in the global market, one of the world's leading independent commodity trading and logistics companies. The founders own less than 20 percent while the management team consisting of about 700 people own the remaining 80 percent of the company.
- As an incentive to align the interests, the shareholders have been granting stock options to the key employees of the Bank under the Employee Stock Ownership Program (ESOP). Although the share portion is 1.33 percent, the shareholders allowed employee representation on the Board and one seat is assigned to the ESOP.

Board of Directors

Chairwoman

Mrs. Munkhtsetseg Chultem

Mrs. Munkhtsetseg has been the Chair of the Board since December 2013. Former consultant to the World Bank, her previous professional experience includes managerial and executive roles at the Mongolian Stock Exchange, Asian Development Fund, and Nepko Publishing Company.

Member

Mr. Urs Ernst Schwarzenbach

Mr. Schwarzenbach has been a member of the Board since 2011. He was awarded an honorary Doctorate of Law from St. Francis Xavier University in Nova Scotia, Canada. He is the Honorary Consul of Mongolia for the German speaking part of Switzerland.

Member

Mr. Temuun Zorigt

Mr. Temuun has been a member of the Board since 2012. He has an experience working in the executive roles at subsidiary companies of Bodi Group.

Member

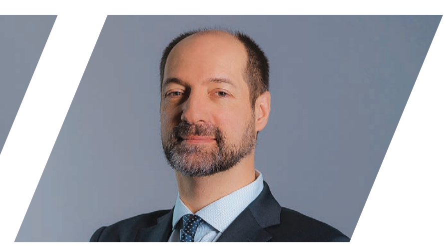
Mr. Munkhtur Dagva

Mr. Munkhtur started his career at Golomt Bank in 1996, he previously served as Director of Credit Division and the Operations Division, and Executive VP & COO. Mr. Munkhtur was appointed as member of the Board in December 2012.

Independent Member

Mr. Unenbat Jigjid

Mr. Unenbat joined our Board in 2010 as an independent member. After his role as a Governor of The Bank of Mongolia in 1996, he became the executive director of the Corporate Governance Development Center, an organization with the goal of advancing corporate governance of Mongolian companies.



Independent Member

Mr. Antonio López Abelló

Mr. Abello has been an Independent Member of our Board of Governors since 2014. He is a highly experienced professional, previously held senior positions at Credit Suisse, Goldman Sachs and Paribas.

Corporate Governance

Golomt Bank is committed to safeguarding the interests of its stakeholders and complies with internationally accepted Corporate Governance standards.

- Our vision - to become the "Mongolia's Global Benchmark" bank - doesn't only apply to the business side of the bank but also applies to the corporate governance practices of the bank. We aim to be renowned for our exemplary good governance, and be leading and paving the way for other regional banks to follow.
- We believe that our responsible approach to the best governance system is an essential factor for our long-term success and sustainability.

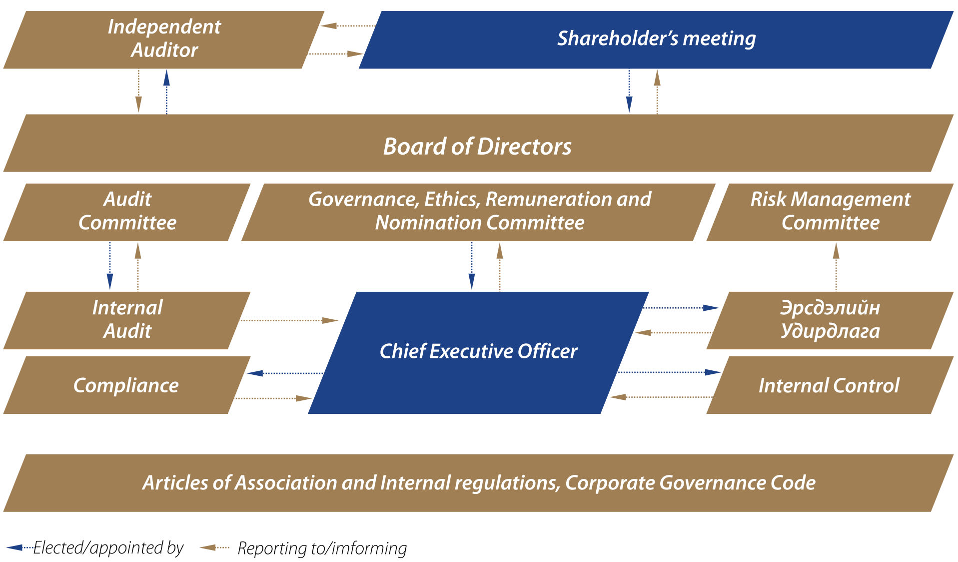
Corporate Governance Framework

The Bank's Code of Conduct ensures that the Bank is fully compliant with Mongolian laws and regulations as well as the international standards set forth in the governance codex for banks such as the Implementation of the Corporate Governance Principles for Banks and the Corporate Governance Principles for Banks by Basel Committee.

The Code of Conduct defines ethical values and professional standards that the Board and all employees of the Bank are required to follow, including adherence to all relevant laws, regulations and policies.

The Bank's Corporate Governance Code includes 7 essential policies, with the aim to maintain effective internal control system. Under this framework, Risk and Internal audit functions are working independently from the business units.

Corporate Governance Structure



The Board of Directors

The decisions of the Board of Directors are made independently, with focus on medium and long term stability and prosperity of the bank, considering the risk–reward relation of each subject matter and anchored in policies of the Bank. In 2016, the Board of Directors met 11 times and resolved total of 45 issues or matters; most importantly, the Board approved a new two-year business strategy of the bank. The average attendance was 94 percent.

Board Committees:

- Audit Committee;
- Risk Management Committee;
- Governance, Ethic, Remuneration and Nomination Committee.

The Audit Committee

The Audit Committee reviews the Bank's financial position and makes recommendations on all financial matters. Its functions include supervising general corporate governance, activities of the Internal Audit Division, compliance with laws and regulations, quality and completeness of the Bank's financial statements and the independence of the external auditors.

Golomt Bank is a member of the Institute of Internal Auditors and the ISACA. The Audit Committee has 5 members of whom 2 are independent. The Audit Committee met 13 times resolving 87 issues and matters in 2016.

The Risk Management Committee

The Risk Management Committee is responsible for creating a unified risk management framework. It defines methodological approaches for the assessment of each type of risks, including credit, liquidity, interest rate and foreign exchange risks, as well compliance, operational and IT-related risks, and for making appropriate recommendations regarding the measurement, assessment, mitigation and limitation of risks. In 2016, the Risk Management Committee met 7 times resolving 24 issues and matters.

The Governance, Ethic, Remuneration and Nomination Committee

The Governance, Ethic, Remuneration and Nomination Committee ensures that there is a formal and transparent Human Resource procedures and policies within the Bank and makes recommendations to the appointment of Executive Management Team. It also oversees the Bank's overall compliance with Code of Conduct and other related procedures. The Committee met 8 times resolving 19 issues and matters in 2016.

Corporate Governance Highlights for 2016

- *The appointment of new Chief Executive Officer Mr. Ganzorig Ulziibayar effective 1st of May, 2016, followed by senior leadership changes within the Executive team.*
- *The Board approved Risk Appetite Framework and Risk Appetite Statement.*
- *The establishment of two new Executive roles, Chief Economist and Deputy CEO in charge of Financial management, Treasury, Funding and Financial Institutions.*
- *The Annual Shareholders' meeting held on April 20 and November 21, 2016 at which shareholders approved our redefined vision, mission, strategies, and organizational restructuring that followed covering the prospect of next two years.*
- *Further progress on the implementation of the Corporate Governance Enhancement Project led by the International Finance Corporation (IFC), which began in 2015.*

Executive Management Team

Chief Executive Officer

Mr. Ganzorig Ulziibayar

Mr. Ganzorig was appointed as CEO in May 2016. He joined the Bank as President in Jan. 2015. He served at several government level committees, and held various senior positions as Chairman of Mandal Insurance, CEO of Tenger Insurance, Deputy CEO of Ulaanbaatar City Bank and Advisor to the CEO of Xac Bank.

President

Mr. Ganbold Galsan

Mr. Ganbold was the CEO of the Bank during 2012-2015, and re-joined the bank as President in Aug.2016. He has been with the Bank since 2000 and held various executive roles including Chief Operating Officer and Director of Operations of the Bank.

Deputy CEO (Credit)

Mrs. Nyamsuren Tumur-Ochir

Mrs. Nyamsuren has been with the Bank since 2001. She held various senior management positions, including Senior Economist, Senior Manager at Risk Management Division, Head of Credit Risk Management Department and Director of Credit Division.

Deputy CEO (Financial Management, Treasury, Funding & FI)

Mr. Tomas Bravenec

Mr. Tomas Bravenec joined the Bank in November 2016. He is an internationally experienced banker with over 25 years of track record with leading European and global banks and International Financial Institutions.

Deputy CEO (CIO)

Mr. Tserendavaa Namuu

Mr. Tserendavaa has been with the Bank since 1998. He has over 20 years of experience working in the banking IT and been playing key roles in all major IT-based projects of the Bank. Since 2004, he served as Director of IT Division and Chief Information Officer.

Deputy CEO (COO)

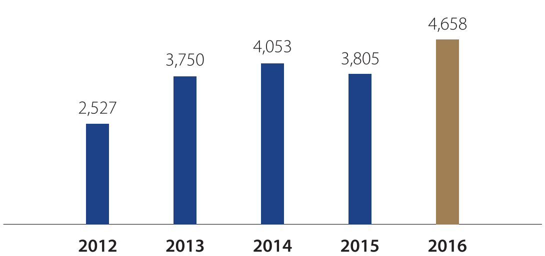
Mr. Selenge Jadamba

Mr. Selengee was appointed as the Deputy CEO, in charge of HR and Operations of the Bank in March 2017. Prior to joining the Bank, Mr. Selengee was the founder and CEO of HumanFortis Co.Ltd, a pioneer and revolutionary management consulting company in Mongolia.

Financial Highlights

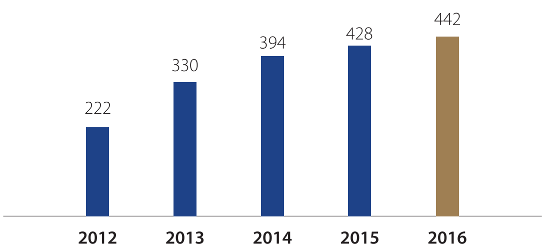
Balance sheet items

Total Assets
(in MNT, billions)



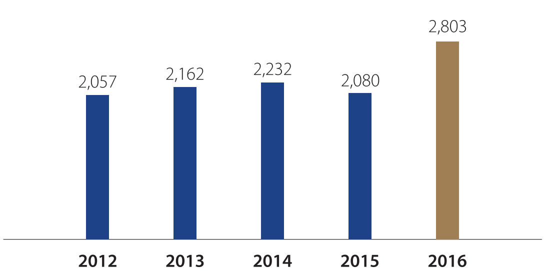
Total asset increased by 23% in 2016 (yoy). CAGR of 13% in last 5 years.

Total Capital
(in MNT, billions)



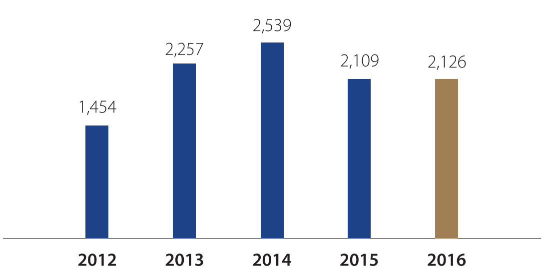
Total capital increased by 12% in 2016 (yoy). CAGR of 17% in last 5 years.

Total Deposits
(in MNT, billions)



Core deposits increased by 35% in 2016 YoY. 67% of the growth was from individuals and 33% was from corporate clients.

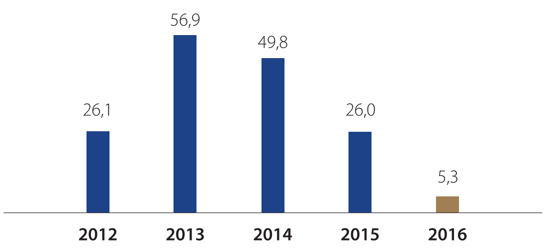
Total Loans and Advances
(in MNT, billions)



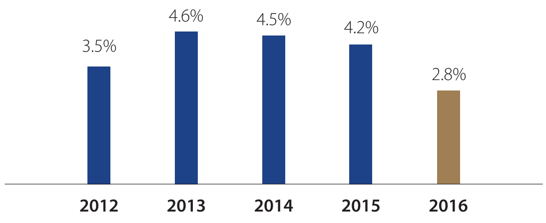
Total loan portfolio was maintained at almost the same level with previous year, totaling MNT 2,126 billion.

Profitability results

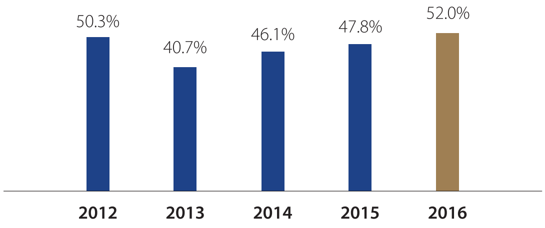
Net profit
(in MNT, billions)



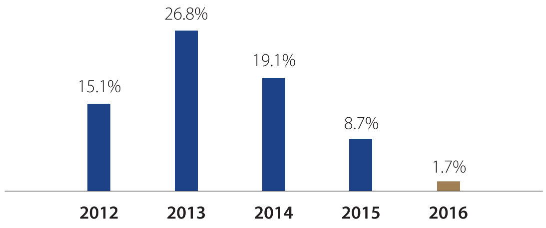
***Net Interest Margin** (%)*



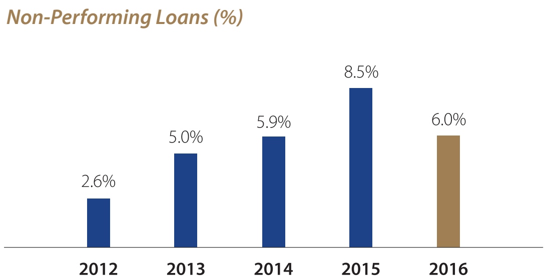
Cost to Income ratio (%)

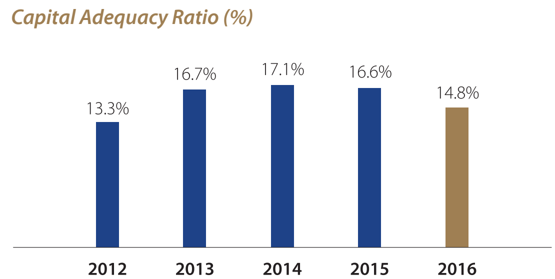


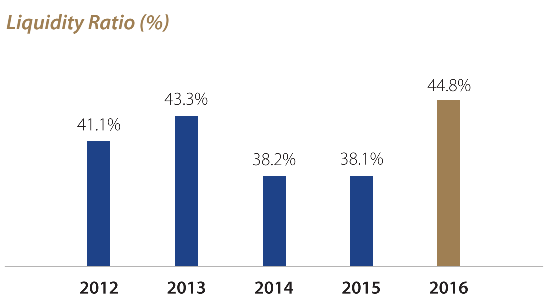
Return on Average Equity (%)

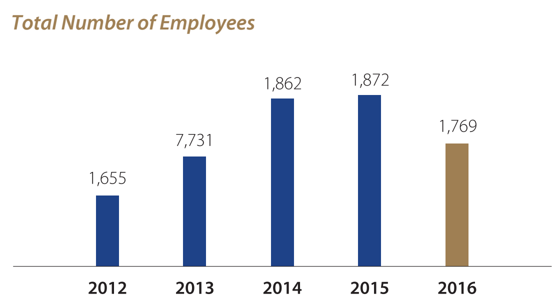


Other key metrics









Market Environment

Macro Environment

Mongolia managed to achieve positive GDP growth in 2016

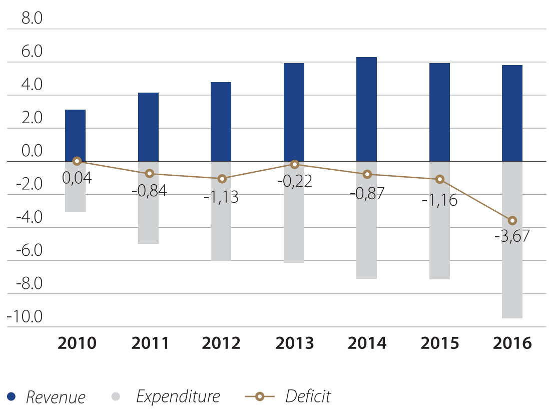
2016 was challenging year for the Mongolian economy. The unemployment rate in the first quarter was 11.6 percent, which was the highest rate since 2010. In August through October, 2016 CPI declined showing signs of deflation. Seasonally adjusted QoQ real GDP growth was negative in two quarters in a row, indicating that economy was in recession.

Even though Mongolia faced difficult times, the sentiment picked up in the last quarter. On YoY basis Mongolia managed to have positive GDP growth of 1percent in 2016. Industries that most contributed to GDP growth in 2016 were transportation and agriculture, whereas construction, trade and manufacturing shrank.

Indicators	Units	2012	2013	2014	2015	2016
GDP						
NGDP [1]	MNT trillion	16,7	19,2	22,2	23,1	23,9
RGDP growth [2]	%	12.3	11.6	7.9	2.4	1.0
Labor						
Unemployment rate	%	7.9	7.8	7.7	8.3	8.6
Prices						
Inflation rate [3]	%	14.2	1.7	1.6	-0.1	1.1
Monetary Indicators						
Money Supply /M2/	MNT trillion	7,6	9,5	10,6	10,1	12,1
M2 Money Supply Growth	%	18.8	24.2	12.4	-5.5	20.2
Foreign Sector						
Balance of Foreign Trade	USD million	-2354,3	-1489,1	480,4	872,3	1559,4
Balance of Payments	USD million	1639,1	-1867,3	-471,1	-268,1	-18,2

[1] Aggregated quarterly NGDP of Q4
[2] Aggregated RGP growth rate from the beginning of the year
[3] Comsumer Prices Indicator yearly growth

General government budget
in MNT Trillion

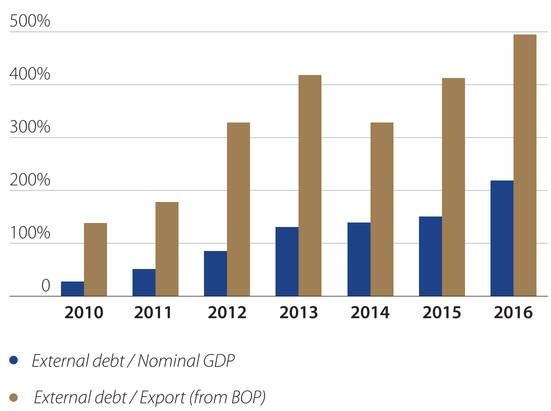


Source: National statitstics office

Budget deficit reached its historic high

Budget deficit in 2016 reached MNT3,67trillion, the historic high level of 15.4 percent of GDP. To finance its deficit, the government increased its issuance of domestic securities with higher coupon rate.

External debt
% of Nominal GDP and Export



Source: MongolBank

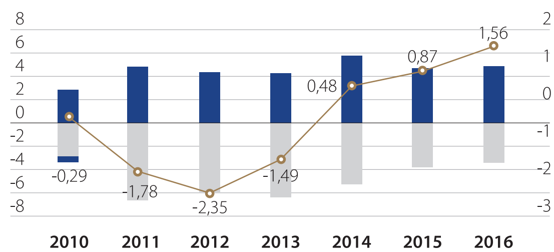
External debt increased to critical level

In recent years Mongolian external debt continued to rise. In 2010, external debt was 175 percent of annual export income and 77 percent of nominal GDP respectively. In 2016, external debt rose to 494 percent of export income, and 248 percent of nominal GDP.

Money supply YoY growth reached same level as 2013

In first half of 2016, the policy rate was increased to 15 percent but in December, 2016 Bank of Mongolia cut its policy rate to 14 percent after coming to decision that FX rate fluctuation subsided. Despite high policy rate, money supply increased to MNT 12,1 trillion where YoY growth rate was higher than the last two years.

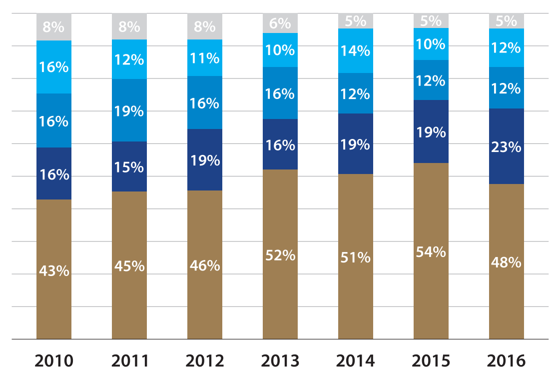
Trade balance
in USD billion



Source: National statitstics office

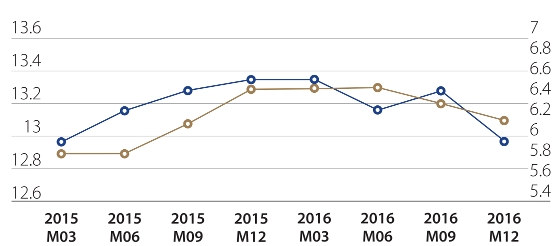
Due to MNT depreciation, there was transition from domestic currency deposit to foreign currency deposit. , The banks increased its domestic currency deposit rate and decreased its foreign currency deposit rate during August to November, and increased the foreign currency deposit rates again, which resulted in foreign currency deposit share increase to 23 percent.

M2 breakdowns
/% of total/



Source: MongolBank

Deposit rate



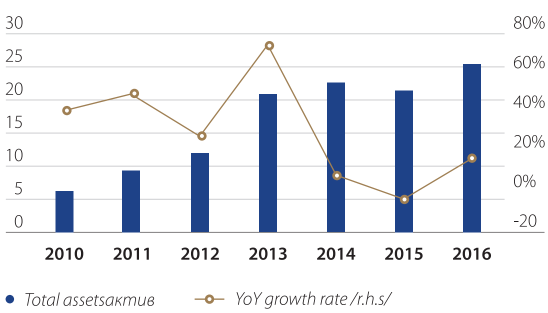
Source: MongolBank

Mongolian Banking Sector

Banking Sector showing signs of improvement

As of YE2016, 14 commercial banks are operating in Mongolia. Banking sector asset is MNT 25,3 trillion, which grew by 18 percent from 2015.

Total assets of the banking sector
Trillion MNT

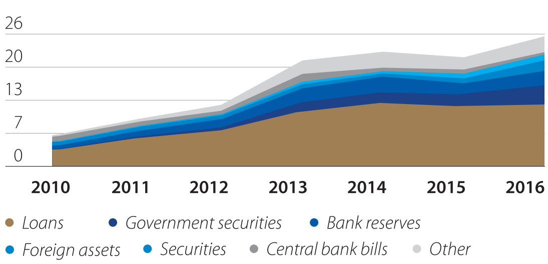


Source: MongolBank

Asset side

Loans outstanding 49 percent, Government securities 14 percent, Foreign assets 8 percent and Other assets 29 percent.

Breakdown of the assets
Trillion MNT

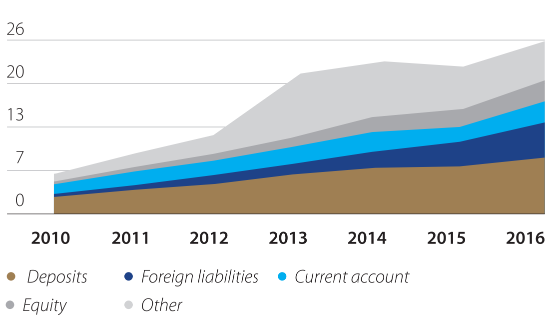


Source: MongolBank

Liability side

Deposits 33 percent, Foreign liabilities 21 percent, Current account 12 percent, Equity 12 percent and Other sources 22 percent.

Breakdown of the liabilities
Trillion MNT

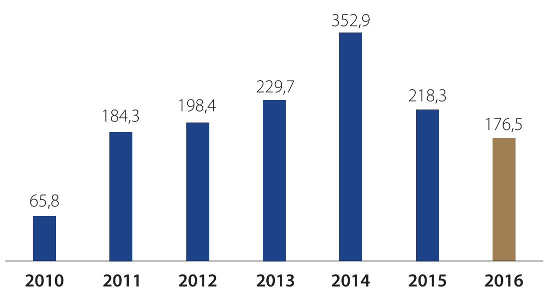


Source: MongolBank

Banking Sector Profitability

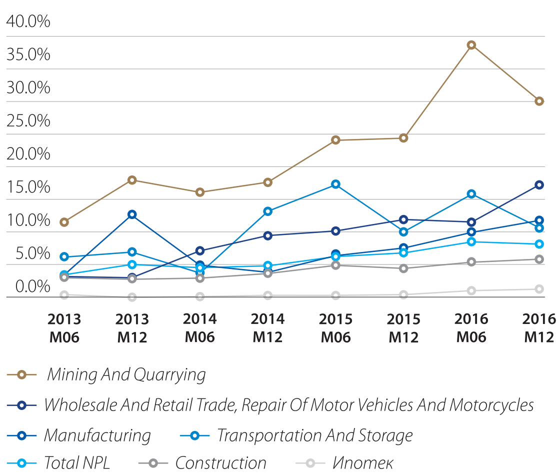
In 2016, equity increased by 21 percent from 2015 to MNT 2,9 trillion. 2016 profit contribution to the equity was 6 percent. The banking sector profit in 2016, was MNT176,5 billion, the lowest in six years.

Profit/Loss of current year
Billion MNT



Source: MongolBank

NPL ratio by sector



Source: MongolBank

Bank Loans by Sectors and NPLs

Banking sector NPL in 2016 was 8.5 percent of the total loans.

Outstanding Loan Portfolio of Banking sector	*2016*
Mortgage	*32.6%*
Trading and service	*14.1%*
Construction	*10.8%*
Manufacturing	*10.5%*
Mining	*6.2%*
Others	*25.8%*

Business Highlights

Business Segments by Revenue Contribution

Revenue contribution by Key Business Segments

Golomt Bank's stable business model is based on an undivided focus on its three key customer segments, i.e. large corporates, SMEs and individual retail customers, supplemented by increased importance of public sector, institutional, treasury and investment banking services.

	2015	2016
Corporate	*41.7%*	*37.9%*
SME	*17.6%*	*13.8%*
Retail	*30.2%*	*24.5%*
Treasury & Investment Banking	*10.4%*	*23.7%*

Corporate Segment

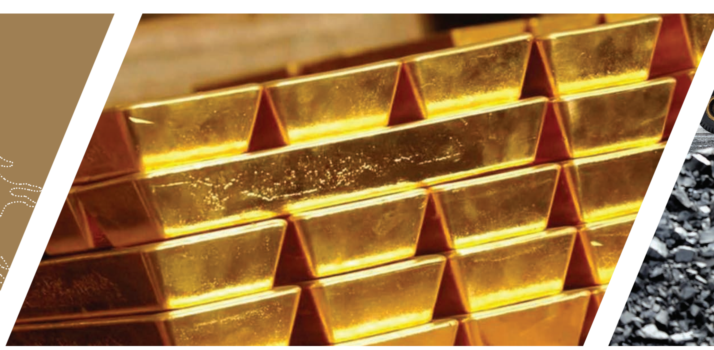
Large domestic and international corporates form the back-bone of Mongolian economy as well as Golomt bank's business.

As a leading corporate bank of Mongolia, Golomt Bank once again distinguished itself by delivering complex banking service offerings with highest professional standards to its domestic as well as international private, public and institutional corporate clients.

Corporate Segment Highlights of 2016

Mining and Infrastructure Sector

- Gold program: We are currently the only bank in Mongolia implementing the "Gold Program", which was initiated by the Bank of Mongolia, Ministry of Mining and Heavy Industry, and Ministry of Finance to enable working capital financing to gold explorers at favorable rates.
- Copper segment: We signed a Framework agreement with Oyu Tolgoi LLC and started a special Supply-Chain program, which facilitates lending to the Suppliers and Contractors of Oyu Tolgoi underground mining project.
- We support the Erdenet Mining Corporation on its PITRAM project, which helped the biggest copper miner of Mongolia with a 15 percent decrease in its operational costs, and a significant increase in its profitability level.
- Coal segment: Golomt Bank's clients contribute to 75 percent of the total coal export of Mongolia. In 2016, we cooperated with Marubeni Corporation to re-enter and invest in Mongolia after 18 years, and mobilized the introduction of up-to-date mining technologies to the market.



Infrastructure Sector

- Wind Power Plant: We provided financial solutions including settlement, trade finance, cash-flow management services to the construction of 50MW wind power plant project, which supplies power to the Oyu Tolgoi, Tavan Tolgoi, Ukhaa Khudag, and Tsagaan Suvarga, the largest mining projects in Mongolia.
- Power Grid: We helped improving the power network of Mongolian eastern region by financing the building of 147kms Power network grid.
- Railway: With our financing, we contributed to the 30 percent over-performance of railway construction plan of Mongolia in 2016.
- Aircraft financing: We financed the purchasing of modern aircraft turboprop ATR72, making a notable contribution to fleet renewal of Mongolian air transportation.

Construction Sector

In 2016, we contributed to the socio-economic development by providing financing and full banking services to the following economically important projects:

- New Ulaanbaatar International Airport (NUBIA) Project and the its sub-contractors
- "Khuh tsavyn" Cement Plant Project
- 3000 household apartment complex construction financing. This project was included in the Mongolian Government mid-term program
- 1800 household - housing project, targeted to the employees of state institutions and universities.

Trade and Industrial Sector

We at Golomt bank go an extra mile to support sustainable growth of the economy. We believe that the key to long-term sustainable growth is economic diversification. With our trade finance, term loan facilities and cash management services, our clients exported wool and cashmere products worth of over MNT160 billion, to China, Italy, Scotland, and Great Britain in 2016.

Client success stories

Darkhan Nekhii JSC

The company is engaged in fur and leather processing and manufacturing, and leading the market with its fur and leather garments and accessories. With Golomt Bank support, Darkhan Nekhii is successfully renovating and modernizing its machinery and technology.

Dashvaanjil LLC

Dashvaanjil has a history of cooperation with the bank for 20 years and one of our top clients who fulfills and maintains our Sustainable Financing requirements. With Golomt Bank project finance offerings, the company is successfully implementing environmentally friendly projects, such as construction of the network of liquid gas stations for refilling gas balloons in Ulaanbaatar and the rural area, contributing to reducing air pollution.

Nogoon sor LLC

Founded in 2009, Nogoon sor LLC, produces organic fruits and green vegetables in 4 seasonal greenhouse. The company prohibits chemical fertilizers on their fields.

Noos ireedui LLC

Noos ireedui, the leading processing plant of sheep and camel wool, goat cashmere, exports 70 percent of its products and sells the remaining part in the local market.

Golomt bank facilitated the financing of the export with our export financing products and supported the business expansion of the Noos Ireedui.

SME Segment

Small and medium sized enterprises have ever growing and crucially important role in the Mongolian economy and society. The entrepreneurial spirit, ingenuity, tenacity and innovativeness of our entrepreneurs is the guarantee of future growth and diversification.

Golomt bank is proudly supporting its growing SME customer base through a complete range of products, services and solutions. From cash-management and treasury to lending and project financing, from deposit services to payment and credit cards, from trade finance and services to advisory, Golomt bank is combining product superiority with service quality and efficiency.

We have been actively engaged with both international organizations and the Government to create affordable financial support to the SMEs. We established www.sme.golomtbank.com , a web platform with financial and non-financial tools for SMEs and self-employed business owners. We are supporting women-led businesses and establishing Women' Business Center in Ulaanbaatar, providing our advisory service from August 2016.

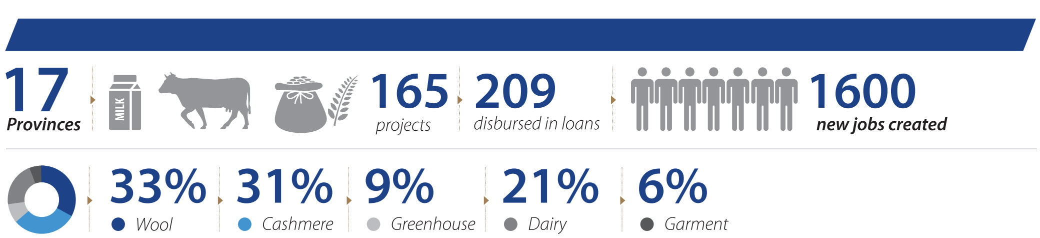
Leader and main partner for JICA Two-step Loan Program for SMEs

The JICA (Japanese international cooperation agency) Two-step loan program reaches out to SMEs in all 21 provinces of the country. Golomt Bank has been the leader in its implementation for 8 consecutive years, and currently solely comprising the 25 percent of the total portfolio among 8 other selected banks.

Leader in Agriculture Loan Programs

Under the program to support strategically important sectors with the proceeds of Chinggis bond, following 5 sub-sectors are covered: wool, cashmere, greenhouse, dairy farming and garment industry. Golomt Bank was selected to be a sole implementer of the program, and the program was fully utilized in 2016. The Bank financed total of 165 projects with the support from Ministry of Industry and Agriculture, and Development Bank of Mongolia.

In 2016, Golomt bank continued its engagement with ADB's Agriculture Sector Development Program (sponsored by Ministry of Finance), designated to support SMEs in agri-business with low cost financing. In 2016, we have secured USD35 million funding through this program.



Education and Easy access for SMEs

Through our www.edu.golomtbank.com , www.sme.golomtbank.com websites, we provide financial knowledge and educational contents, making it a financial information portal for everyone. In 2016, we launched online application platform for business loan requests at www.sme.golomtbank.com. We also organized 23 seminars on financial literacy, risk mitigation and prevention to 1000 employees, and organized SME Forum for Western and Eastern Mongolian provinces.

Supporting Women Entrepreneurs

Golomt Bank is working with the Asia Foundation and KOICA to develop 25 start-ups led by women, by providing customized advisory services, business incubator trainings and capacity building workshops to women entrepreneurs.

Consulting Service for SMEs

In 2016, Golomt Bank signed an MOU with USAID REACH Project and started the cooperation on consulting SMEs to improve their capabilities on business planning, financial discipline, and loan documentation processing that are necessary for the SMEs to obtain financing.

Business Highlights Sector

Provides financial solutions to over **80%** *of the top businesses in Mongolia*

Business loans for **1482** *clients*

Project loans for **656** *Clients*

795 *Active Corporate clients*

14400 *Active SME clients*

"Women Business Center" **250** ***Women entrepreneur*** *participated in our seminars*

100% *% utilization of Chinggis bond funded on-lending Project*

USD 35 mln *ADB's Agriculture and Rural Development Project*

Business Incubators and Capacity Building Trainings for SMEs

Retail Segment

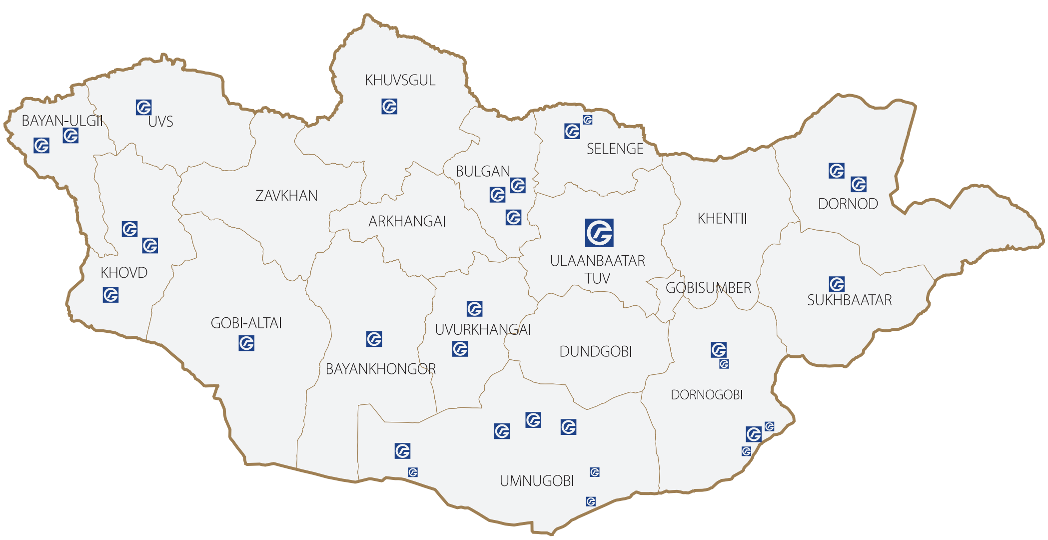
Golomt Bank is best known as the market innovator in retail segment and provides a full range of high quality products and services to both mass market as well as high net worth individuals.

In 2016, we have sharpened our focus on the quality of our branch service, further enhancing the professionalism and knowledge of our customer-facing staff. We understand that besides quality, service speed as well as reliability and security of operations are becoming increasingly important to our customers. Tailor-made investment and savings solutions for our high-net-worth customers also have become the basis of our success in this competitive market segment.

Branch and Service Network

Golomt Bank is currently operating with a total of 100 service points including 68 branches at strategic locations throughout in the country.

By reorganizing our branch operations into sales oriented structure and applying the "Customer Centric Strategy", we have effectively increased our customer motivation actions through the branch sales channel. As a result, the number of active customers increased by 83 percent in 2016 as compared to 2015.



GOLOMT BANK – Premier Bank in Ulaanbaatar City

We are #1 Bank in terms of access to the mid and higher income customer segments in Ulaanbaatar. 25 percent of the people with monthly income of MNT 1,5-4,0 million receive their salary through Golomt Bank, implying that Golomt Bank has the most mid and above average income customer base compared to its peers.

In 2016, we introduced new payment and credit cards, new e-banking and mobile banking, as well as social media solutions to our clients, and brought our banking services to their homes and hands. We have also enriched our offerings with investment products and global market instruments, expanded our private banking unit and facilitated 8 branches for providing services in English, Russian, Chinese, Japanese and Korean languages for our foreign customers.

Card Market

Credit card is one of the products with the lowest penetration in the market. In 2016, Golomt reaffirmed its market-leading position by dominating 67 percent of total credit card market share as of year-end 2016, (85 percent as of 2017-Q1).

Award-winning card designs and record-breaking sales – "Zes" (copper) card (www.zescard.com); "AMEX" credit cards

Our newly introduced "Green AMEX" and "Zes" credit cards were highly appreciated by users resulting in 135 percent growth in number of credit card users and 165 percent growth in transaction volume of credit cards compared to 2015.

Golomt Bank was awarded for the success of "Zes" credit card by the international and domestic prestigious organizations.

- "Best Innovative Product of the Year" award by Visa International
- "Best Innovative Entrepreneur" award by Mongolian Chamber of Commerce

Retail Segment Highlights of 2016

National Savings Program: 45 thousand individuals started savings

In 2015 Golomt Bank started National Savings Program to encourage savings habits and enhance economic immunity. The Bank continued the program in 2016 and as of year-end 2016, 45 thousand individuals joined the National Savings Program and received 20 percent interest rate reward, the highest return in the industry.

2825 households newly acquired housing in 2016

To date, the Bank supported more than 28 thousand households in owning apartments. In recent years, we are expanding our scope on real estate, cooperating with industry experts and offering real estate market research and advise for our private banking customers on various investment opportunities in the real estate sector.

Number of credit card owners increased by 135 percent

With the newly introduced American Express Green credit card and "Zes" (copper) credit card, the Bank did not just increase the number of cardholders, but it also enabled following:

- Streamlined card ordering, card issuing and document review process, and started receiving client requests on website (www.zescard.com);
- Increased financial knowledge and discipline of the clients

Internet Banking, Smart Banking and Mobile Banking services renewed

In 2016, Golomt Bank upgraded its technological capabilities and applied improved solutions in its internet and mobile banking services which brought user friendly and reliable services for the customers. As a result, the inter-account transactions speed was increased by 93 percent.

Trade-in Car Dealership Services

Golomt Bank was the first Mongolian bank to introduce trade-in car dealership service in Mongolia. This service enables our clients to use their car as a collateral, receive car loans on the site, and to trade-in their old cars for a new insured ones with the bank's leasing service.

Bankassurance

In 2016, we have broadened bankassurance services and started providing consultation to the clients on preventing potential risks. Our clients appreciated us for introducing vehicle insurance product.

Treasury Activities

Golomt Bank is the first Mongolian Bank to adopt Asset Liability Dual Management. In line with our vision to become "Mongolia's Global Benchmark" bank, we adhere to Basel III regulatory ratios on daily basis. Treasury is, at most professional level, managing the bank's interest rate, foreign exchange rate and commodity risks, both for our customers, as well as on behalf of the bank. Hence, our Treasury Division plays an important dual role:

- It is the customer-facing solutions provider for foreign exchange, special deposit as well as hedging instruments; Treasury customers comprise of individuals, SME, corporate, institutional and governmental entities.
- It is managing Golomt banks proprietary domestic and international investments and actively participates in the Mongolian money and capital markets.

Treasury Highlights of 2016

Trusted advisor and service provider of FX

In 2016, the foreign exchange market in Mongolia has been rather challenging, as the national currency experienced a 24 percent depreciation in the second half of 2016. We continued to act as trusted advisor and service provider to our customers throughout this turbulent period.

Active player in money and capital markets

We also very actively participated in the domestic money and capital market, by investing and trading government securities both in MNT and USD, and cooperated closely with Bank of Mongolia, Ministry of Finance, Development Bank of Mongolia and other national financial institutions.

"Funds Transfer Pricing" methodology

We made all the necessary preparatory work to start fully utilizing a new "Funds Transfer Pricing" methodology (price making, liquidity and balance sheet management comprehensive solution methodology), which will allow Golomt bank to provide even more competitive loan and deposit products and services to its customers.

Investment Banking Business

Year 2016 was a milestone year not only in terms of foreign relationship expansion and cooperation with partner organizations, but also in defining the policy and vision of the Investment Banking Business to capture growth in coming years.

Advisory business highlights of 2016

Joint Lead Manager for Mongolian Sovereign Bond Issue

We worked as one of the Joint Lead Managers of the Mongol 2021, USD 500 million bond issue in the international market, along with other selected international banks and reputable legal firms.

Underwriter of Corporate Bonds

We successfully closed two corporate bonds that we launched in 2015, and re-assured the investors' confidence in our underwriting merits.

Advisor for IPO and Dual-listing

We continued our efforts to bring-in new products to the Mongolian capital market, and undertook pre-IPO advisory, and MSE listing preparation, as well as advised a client on dual-listing possibilities for accessing global markets.

Structured finance highlights of 2016

The first IMAX Movie Theatre Project

We worked as the financial advisor on the IMAX project, and successfully secured the financing with Canadian export credit agency in year and half. This project was much appreciated by the movie lovers, and contributed to the development of movie industry.

Bank for Green Growth Development

We are committed to support green growth, echo friendly projects. In 2016, we moved one stage forward in the process of getting the accreditation from Green Climate Fund.

Supporting the Oyu Tolgoi Mega Project

As the development of OT underground mine started, we developed financing products for OT suppliers to meet their needs together with DFIs.

Partner bank for ADB's Agriculture & Rural Development Program

We continued our partnership with ADB and Ministry of Finance on the ARDP project, and have secured USD35 million funding, provided the favorable financing to our eligible clients.

Golomt Capital LLC

The Bank's wholly owned subsidiary, Golomt Securities LLC was renamed as Golomt Capital in 2016 following the renewed strategic goals provided by the Bank.

Golomt Capital Highlights of 2016:

- Successfully executed MNT12 billion trades for domestic and international investors on the Mongolian Stock Exchange
- Upgraded Online Trading Platform to trade in real-time on the Mongolian Stock Exchange which received excellent reviews from clients
- Organized the first Online Trading Contest on the Mongolian Stock Exchange which strongly boosted the market trade volume
- Outperformed our international trade target volume by 372 percent.
- Started publishing Mongolian economic daily research newsletters and market reports on Bloomberg Terminal and Thomson Reuters.
- Worked as an advisor of the "Women's Business Centre" project in partnership with Asia Foundation.

Custodian Banking

In 2016, Golomt Bank has become a key player in the domestic capital market as a result of the successful implementation of its cutting-edge custodian solution that enabled to offer comprehensive suite of securities services to other parties. Golomt Bank's custodian business distinguished itself from its competitors by both the number of clients and the volume of safekeeping assets.
We are offering following custodian services to banks, NBFIs, investment funds, insurance and brokerage companies:

- Asset safekeeping
- Execution of trade settlements
- Collection of coupon/dividend income
- Periodical unit, NAV calculation
- Registration of unlisted securities
- Registration of unlisted securities
- Repo trading
- Securities backed lending
- Trustee services
- Depository receipts

Custodian Banking Highlights of 2016:

- Successfully launched its custodian service to its customers by completing the system implementation.
- Signed cooperation agreement with the Mongolian Central Securities Depository and opened a nominee account, enabling the safekeeping of customer's assets and offering a set of securities services.
- Started providing custodian services to 2 investment funds.

Signed cooperation agreement with 5 brokerage firms and enabled the system interface, providing the clients with integrated access for all trade related activities.

International Cooperation

As of 2016, we are cooperating with 88 financial institutions in 25 countries.

56	23	10	5	12	2
Correspondent banks	*Trade Finance partner banks*	*ECAs and EXIM banks*	*Development Finance Institutions*	*Industry network and membership institutions*	*Representative offices* ***(Beijing and London)***

International Cooperation Highlights of 2016

International Financial Corporation (IFC) - Global Trade Finance Guarantee Program

In August, 2016, we signed Trade Finance Guarantee Agreement with for USD 10 million. Within only in 4 months period, we utilized over 75 percent of this line in 2016, and it was recognized as one of the best utilization cases.

Joined Factor Chain International (FCI)

In April, 2016, we become member of the FCI as the first bank from Mongolia. FCI is a global network for facilitating financial solutions for international trade among its members of over 400 commercial finance institutions in 90 countries.

Signed 3 Inter-Factor Agreements

Under the FCI framework, we signed Inter-Factor Agreements with ICBC, Bank of Communications, China Merchants Bank, and started providing Import Factoring services to our clients.

Increased Trade Finance Lines

In 2016, we signed agreements AKA, Berliner Sparkasse from Germany on financing trade and export deals. We have also expanded our cooperation with Bank of Inner Mongolia, China Trade Solutions on trade finance facilities. Under the trade line of International Investment Bank (IIB), we have also opened UPAS LC with CSOB from Czech Republic.

Expanded Partnership with International ECAs
We continued to develop our cooperation with Export Credit Agencies (ECAs) and established new cooperation with ECAs from Germany, Japan, Canada, Czech and Slovakia in 2016.

Sizable Syndicated Loan between Mongolian and Chinese banks
We have successfully executed a sizable syndicated loan transaction with Baoshang Bank, China, which was marked as the first jointly financed private sector project for both parties.

Expanded FX trading and International Payments
We have started MNT trading with Bank of China, first time between two countries. We also signed account agreements with two of our partner banks from China, and FX trading agreement with Raiffeisen Bank International.

Ratings

Golomt Bank is rated by Moody's and S&P, where both ratings are capped by the sovereign rating of Mongolia. Due to the increased foreign debt, fiscal imbalances and challenging economic environment, S&P changed the outlook for the sovereign rating from Stable to Negative in August 2016, and Moody's downgraded the sovereign rating from B3 Stable to Caa1 in November 2016.

Golomt Bank rating: *S&P: B- / Negative*
Moody's: Caa1 / Stable

Correspondent banks
March 2017

GOLOMT BANK SWIFT CODE: GLMTMNUB

№	COUNTRY	CORRESPONDENT BANKS	SWIFT CODE	CURRENCY	NOSTRO ACCOUNTS
1.	**Australia**	**AUSTRALIA AND NEW ZEALAND BANKING** ANZ CENTRE MELBOURNE, LEVEL 9, 833 COLLINS STREET DOCKLANDS, VICTORIA, AUSTRALIA, 3008	ANZBAU3M	AUD	920660AUD00001
2.	**Austria**	**RAIFFEISEN BANK INTERNATIONAL AG** VIENNA 1030 VIENNA AUSTRIA	RZBAATWW	EUR	1-55 076 335
3.	**Canada**	**CANADIAN IMPERIAL BANK OF COMMERCE** TORONTO M5G 2M8, CANADA	CIBCCATT	CAD	1818910
4.		**AGRICULTURAL BANK OF CHINA (Huhhot)** INNER MONGOLIA BRANCH, HUHEHAOTE, CHINA	ABOCCNBJ050	CNY	05999901040000053
5.		**BANK OF CHINA** INNER MONGOLIA BRANCH ERLIAN SUB-BRANCH, CHINA	BKCHCNBJ880	USD CNY	155605293946 154005293944
6.		**BAOSHANG BANK** INNER MONGOLIA BRANCH BAOTOU, P.R.CHINA	BTCBCNBJ	CNY USD	002105599800010 002105599800020
7.		**CHINA CONSTRUCTION BANK** INNER MONGOLIA BRANCH, CHINA	PCBCCNBJNME	USD CNY	NRA15014150500220100181 15001658408052502177
8.	**China**	**INDUSTRIAL AND COMMERCIAL BANK** INNER MONGOLIA BRANCH NO.105, XILIN NORTH ROAD HOHHOT, INNER MONGOLIA, P.R.CHINA	ICBKCNBJNMA	USD CNY	0610040629200061234 0610040609200054391
9.		**BANK OF INNER MONGOLIA** 33 TENG FEI ROAD, HUHHOT, INNER MONGOLIA, P.R.China 010020	HSSYCNBH	USD CNY	115914236000000184 115901236000000122
10.		**BANK OF COMMUNICATIONS** INNER MONGOLIA BRANCH, NO.18, HOHHOT, INNER MONGOLIA, P.R.CHINA 010010	COMMCNSHHHH	CNY	151899991010003021570
11.		**CHINA CITIC BANK** INNER MONGOLIA BRANCH HUHEHAOTE, P.R.CHINA	CIBKCNBJ010 Bank Code: 302191027101	USD CNY	7271111486000000181 7271110186000000155
12.	**Germany**	**COMMERZ BANK AG, FF/AM MAIN** 60261 FRANKFURT AM MAIN FRANKFURT AM MAIN DE GERMANY	COBADEFF	USD EUR CHF GBP JPYCNH	400 878 506 500 400 878 506 501 400 878 506 500 400 878 506 500 400 878 506 500 400 878 506 508
13.		**BERLINER SPARKASSE-LANDESBANK BERLIN AG** ALEXANDERPLATZ 2, 10178 BERLIN	BELADEBE	USD EUR	10050000/3270000250 10050000/6630008373
14.	**Hong Kong**	BANK OF CHINA (HONG KONG) LIMITED BANK OF CHINA TOWER, 1 GARDEN HONG KONG	BKCHHKHH	HKD CNY USD	012-875-60115674 01287560118495 01287560121220
15.		**MIZUHO BANK LTD** MARUNOUCHI, CHIYODA-KU, TOKYO 100-8210 JAPAN	MHCBJPJT	JPY	6740010
16.	**Japan**	SUMITOMO MITSUI BANKING CORPORATION 1-2 YURAKUCHO 1-COME, CHIYODA-KU, TOKYO, JAPAN	SMBCJPJT	JPY	4374
17.		**BANK OF TOKYO MITSUBISHI** JP TOWER, 2-7-2 MARUNOUCHI, CHIYODA-KU, TOKYO 100-0005	BOTKJPJT	USD JPY	653-0455601 653-0432881
18.	**Kazakhstan**	**KAZKOMMERTSBANK** JOINT-STOCK COMPANY 135G, GAGARIN ST., ALMATY, 050060, REPUBLIC OF KAZAKHSTAN	KZKOKZKX	USD	KZ769260001000694001

№	COUNTRY	CORRESPONDENT BANKS	SWIFT CODE	CURRENCY	NOSTRO ACCOUNTS
19.	**Korea**	**KEB HANA BANK** 181, 2-KA, 181, EULJIRO 2-GA, JUNG-GU, C.P.O. BOX 2924, SEOUL 100-793, KOREA	KOEXKRSE	USD KRW	963-THR-313-01-2 0963FRW001000054
20.		**SHINHAN BANK, SEOUL** P.O.BOX 2997 SEOUL 100-629, KOREA	SHBKKRSE	USD KRW	0102245USD01 0102245KRW01
21.		**KOOKMIN BANK, SEOUL10, YEOUIDO-DONG,** YOUNGDEUNGPO-GU, SEOUL, KOREA 150-868	CZNBKRSE	USD KRW	819-8-USD-0-15 819-8-KRW-0-17
22.	**Turkey**	**YAPI ve KREDİ BANKASI A.Ş** YAPI KREDI PLAZA D BLOK, LEVENT 34330 ISTANBUL, TURKEY	YAPITRIS	USD	95711515
23.	**Poland**	**mBANK** 18 SENATORKA STREET,00-950 WARSAW	BREXPLPW	PLN	IBAN: PL 52 114 000 000 000 114 851 001 001
24.	**Russia**	**SBER BANK,** 31 DEPUTATSKAYA ST, 664047, IRKUTSK RUSSIA	SABRRU66 231231	USD RUB	30111840518000000003 30111810618000000001
25.		**SBER BANK, MOSCOW** 19 VAVILOVA STREET, 117997MOSCOW, RUSSIA	SABR RUM 012	USD RUB	30111840100000000840 30111810800000000840
26.		**JSC BANK FOR FOREIGN TRADE** BIK: 044525187 K/S: 30101810700000000187	VTBRRUMM	RUB USD	30111810655550000126 30111840155550000104
27.		**RUSSIAN AGRICULTURAL BANK** 119034 MOSCOW, RUSSIAN FEDERATION BIK: 044525111 K/S: 30101810200000000111	RUAGRUMM	USD RUB	30111840300000000006 30111810200000000013
28.	**Singapore**	**UNITED OVERSEAS BANK LIMITED** 80 RAFFLES PLACE, #05-00 UOB PLAZA 1 SINGAPORE 048624	UOVBSGSG	SGD	301-399-069-5
29.		**DBS BANK** MARINA BAY FINANCIAL CENTRE, TOWER 3, SINGAPORE, 018982	DBSSSGSG	USD	0710-000182-01-5
30.	**USA**	**STANDARD CHARTERED BANK** NEW YORK, NY 10036, USA	SCBLUS33	USD	3582-026934-001

Trade Finance & ECA Partners

AGRICULTURAL BANK OF CHINA

BAOSHANG BANK

CHINA TRADE SOLUTIONS

INDUSTRIAL AND COMMERCIAL BANK OF CHINA

BANK OF INNER MONGOLIA

NORDEA BANK

COMMERZ BANK AG, FF/AM MAIN

DEUTSCHE BANK AG, Frankfurt

BHF Bank

AKA

Berliner Sparkasse-Landesbank Berlin

HUNGARIAN EXIM BANK

Banca Popolare Dell Emilia Romagna

INTESA SANPAOLA

SUMITOMO MITSUI BANKING CORPORATION

KAZKOMMERTSBANK

Bank Gospodarstwa Krajowego

VTB bank

VNESHECONOM BANK

IIB

Kuveyt Turk Katilim Bankasi

İş Bankası

International Institutions – Membership

USA	American Express, VISA, mastercard, Western Union (WU, moving money for better), IIF Institute of International Finance
China	UnionPay, Asian Financial Cooperation Association 亚洲金融合作联盟
Holland	FCI Factors Chain International
Taiwan	ABA Asian Bankers Association
Netherlands	Swift
Hong Kong	第一上海 First Shanghai Group, First Shanghai Financial Group 第一上海金融集團
Denmark	SAXO BANK

Internal Process & Resource Management

Internal Policy Updates

We have updated following eight policies in 2016 to create bank-wide, mutual approach on selective management subjects:

- Human Resource Management: - shifted from experience and academic merit based system to attitude and behavior based system. People will no longer be rewarded for the duration of their stay at the bank, but be rewarded by the value created for the Bank.
- Marketing: - now more centered on modern digital eco system.
- Information Technology: - user friendliness is a key priority.
- Compliance: - a major management function
- Risk Management: - be globally compliant and BASEL III ready.
- Asset and Liability Management: - cornerstones of the Banks' profitability, pricing and performance management tools, in line with best international practice.
- Information Security: - one of the key management functions, apply COBIT@5 governance structure.
- Corporate Social Responsibility: - applied into our services and products rather than looking at it as collection of independent, non-banking activities. Customer financial education and National Savings Program are some of the few examples of embedded CSR.

Business Process Re-Engineering

Golomt Bank firstly introduced business process re-engineering in the industry, where it reassessed and reanalyzed over 250 banking procedures in order to deliver best customer services, reduce costs, and introduce work conveyer system.

Branch- Customer Centric Model

In line with its Customer Centric strategy shift, Golomt Bank changed the way its branches operate so that the branch employees have more time to dedicate to its customers and provide solutions. As the result of the customer centric branch change:

- Customers receive services at our branches 27 percent faster than in 2015.
- Employee productivity and satisfaction both increased by 30 percent.

Shared Back - Office

To support our new strategy, we have established Shared Back Office, where all the repetitive operational processes before being processed at the branches separately, are gathered so that branch employees have more time to communicate with the customers and provide the best services possible. By gathering the repetitive operational processes into one central back office, we can set the same standard of processing, as a result operational risk will be mitigated and performance quality improved.

Human Resources

Golomt Bank’s most important asset are the employees. The Bank invests its resources into its people, organizing various trainings, seminars, and also places importance on the social benefits of its employees.

Total number of employees **1770**

Male employees **30%**

Female employees **70%**

Employees with international degrees **28%**

Main HR activities in 2016

Leadership development training for management team

With Human Fortis Consulting Company, we have conducted a leadership training for our top management team for a half-year period.

Successfully implemented Productivity-30 and Sales Platform projects

We have conducted a bank wide training for developing our front-line staff and improving productivity. Over 400 employees were trained under this program.

Activated result based compensation system

We introduced result based bonus system, so that employees get rewarded for the output, brought by their efforts.

Renewed hiring criteria and process

We introduced behavior, psychology based evaluation in the personnel hiring and allocation process so that each of our employees work at the job they are best suited for.

Trained internal trainers

In cooperation with Banking and Finance Academy of Mongolia organized internal trainer preparation program, so that employees can teach each other and share their professional experience.

New management board of the First Pension Fund

We are the first Mongolian bank to establish pension fund for its employees. 2016 was the election year for the fund, and the management board was newly appointed. As of year-end 2016, there were 1170 employees (66 percent of total staff) enrolled to the pension fund. The pension fund assets increased by 17 percent and reached MNT 7 billion in 2016.

Risk Management

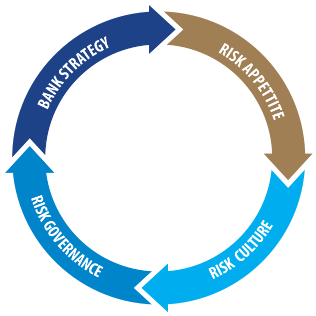
Golomt Bank fully acknowledges the importance of optimal risk & return balance and is committed to applying risk based approach within all level of the bank, while safeguarding the interests of its valued shareholders, depositors, customers, clients and other stakeholders.

Risk Management Framework

The main goal of the Bank's Risk Management Framework is to ensure the Bank's profitability, improve its market position, and foster the ability to adapt to ever changing business environment within the approved risk limits.

In 2016, Golomt Bank's Board of Directors approved the "Risk Appetite Framework/Risk Appetite Statement" (RAF/RAS), where it stated the types and degrees of risk acceptable by the Bank. It covers 15 types of risk such as market risk, credit risk, liquidity risk, operational risk, compliance risk, third party risk, legal risk, reputation risk, IT risk, etc., and consists of following three main parts:

- Identifying risk appetite and the Bank's strategic plan
- Reviewing the risk levels and adherence to the set risk boundaries
- Strategic decision making based on stress test projections



- *Business strategy and risk boundaries adhering to Risk Appetite*
- ***Level I:*** *Business Unit*
  Level II: *Risk Management Division*
  Level III: *Internal Audit Division*
- *Risk acceptance, review, limitation level*
- *Every employee is risk manager*

Risk Governance

Within the Bank, the risk governance is composed of following bodies:

Board of Directors - approves all risk management policies and risk limits and monitors implementation through Risk Management Committee on quarterly basis.

Executive Management - enforces and implements risk policies and risk limits within the approved boundaries.

Risk Management Division - Risk Management Division implements the Bank's risk management independently of the bank's business units.

Executive Management Committee - ensures risk management issues are reflected in policy implementation and make decisions based on risk restrictions and financial performance.

Credit Committees - make decisions according to the risk management policy and credit limits approved by the Boar, approve credit procedures and regulations, provide guidance, and oversee the implementation of the risk management policies.

Asset and Liability Committee - ensures the effective management of assets and liabilities and profitability, manages them within the risk restrictions.

Everyone in the Bank - Risk Management Culture: Golomt Bank's managers in each and every level foster the risk culture in its employees so that every employee is risk educated and takes responsibilities for their actions in line with risk guidance from the management.

Golomt Bank's Risk Governance has three line defense structure:

1. Business Unit

- *Business Unit is responsible for its operational risk*
- *Assess risk and return when making decisions*
- *Check and review the adherence of Business Units operations to the RAF/RAS*
- *Business Unit KPIs reflect RAF/RAS adherence indicators*

2. Risk Management Division

- *Independent monitoring of the risk management implementation*
- *Identify and monitor risk boundaries, report on risk management*
- *Monitor Business Units risk factors and activities*
- *Organize Risk management trainings and workshops*

3. Internal Audit Division

- *Independent monitoring of Bank's operations*
- *Give opinions on RMF and Monitoring System*
- *Report to Audit Committee and Management*

Credit Risk Management

Credit Risk Management Department is responsible for managing the quality of Bank's loan portfolio, minimization of credit risks, and developing Credit Risk Policy for Board approval. Credit Risk Department adopts and implements international and domestic risk management standards and guidance in to the Bank's operations. In 2016, Credit Risk Management Department set a goal to prepare guidance with more emphasis on research.

Credit Rating/Credit Scoring model

In 2016, we successfully introduced Credit Rating/Credit Scoring model which gives customer credit rating based on historic data and periodic reviews. This model enables streamlining of quick process for credit approvals and more optimal credit risk management.

Special Assets Unit

While recognizing the importance of a pro-active problem loan management, Golomt bank directed increased managerial focus, as well as human resources to its Special Assets Unit. The staffing was increased more than three-fold, and the direct responsibility for this function was assigned to the Head of Risk Management Division.

As a result, Golomt bank was able to actively manage its problem loan portfolio, and NPL ratio for YE2016 was 5.99 percent of total loans (according to IFRS methodology).

Market Risk Management

Market risk management is responsible for mitigating the risks associated with FX, interest rate, commodity price fluctuation, and optimal risk return management implementation.

Liquidity Risk

We have always been in compliance with the liquidity ratio and other ratio requirements set by Bank of Mongolia. Starting from 2016, we introduced and implemented two new ratios in line with Basel III standards:

- LCR (Liquidity Coverage Ratio) – In times of stress banks need to meet short term payment obligations for minimum 30 days;
- NSFR (Net Stable Funding Ratio) – the purpose of this ratio is decrease bank dependency on short term funding and encourage long term stable funding.

Stress Test

Risk Management Division assesses potential impact of unexpected adverse events to the Bank based on several scenarios, and makes cash flow projections for each scenario regularly. The result of the stress test were assuring that Golomt Bank can withstand such adverse events and continue to normally operate its business.

Operational Risk Management

Golomt Bank completed several big projects on operational risk management in 2016.

Risk Forum-2016

In order to foster risk based approach culture in each and every of our employees Golomt Bank organized Risk Forum-2016 for its branch employees, where it organized methodology and risk assessment workshops. This forum helped to improve our employees' awareness and knowledge about risk.

Advanced Measurement Approach

We started using "Advanced Measurement Approach" methodology recommended by Basel Committee. It calculates operational risk based on historical data, and we created acceptable operational risk data based on this calculation.

Security Management Center

We have also strengthened our technological capacity and established Information Security Management Center which meets the internationally accepted standards

Zero incident on security

Thanks to our prevention efforts from physical and cyber-attacks, 2016 was the year with zero security risk incident in respect to ATM, CDM and POS services. We continue to take actions to ensure information safety for our employees and customers, advising them on information safety and sending warnings about cyber-attack cases.

Compliance

Compliance function focuses on identification of potential compliance risks, prevention, and minimum risk level maintenance. Golomt Bank is committed to meeting all international standards on AML/CTF, implementing strict KYC procedure and applying risk based approach to the customer monitoring system. The Compliance Department is independently operating under direct supervision of the CEO, ensuring effective implementation of international and domestic laws and regulations as well as bank's internal Code of Governance, Code of Ethics.

AML/CFT Compliance

The Bank cross references customers and counterparties against sanction lists such as UN consolidated list, US and EU sanction lists (OFAC SDN list, UN list of designated terrorist individuals and entities etc.)

Regarding its correspondent banks in the U.S., the Bank complies with the requirements by the U.S. Patriot Act, and has an agreement with a Process Agent in the U.S. since 2011, as a measure of compliance to the Sections 313 and 319 (B) of the U.S Patriot Act. In 2016, the agreement was extended.

The Bank became FATCA-compliant in April 2014. In 2015, the Bank's Board approved a new Compliance policy, which is in line with Mongolian AML/CFT law and with FATF (Financial Action Task Force) standards.

The Bank's all Compliance Officers have earned the Certified Compliance Specialist credential which is recognized by businesses and public agencies worldwide.

Compliance Highlights for 2016

Over 90 Compliance ambassadors trained

In 2016, we have trained more than 90 compliance ambassadors throughout the bank units and ensured the employee awareness and knowledge of compliance related activities.

AML software for fully automated monitoring

To enhance our capacity, we invested in a fully automated AML monitoring system (AML software) in order to maintain an effective internal control system for AML/CFT check. This software will be ready for launch in May, 2017.

Corporate Social Responsibility

Promoter of Sustainable Financing

Golomt Bank is the first Mongolian bank to emphasize sustainability on policy level, embedded E&S requirements into our credit policy back in 2001. Golomt Bank is the only member from Mongolia in the United Nation's Environmental Program. We are the main bank for JICA and ADB's Two Step Loan programs, aimed to finance Green projects in Mongolia. Over last 5 years, we have invested about USD 30,7 million for projects aimed at climate mitigation and adaptation. In near future, we plan to get accreditation from Green Climate Fund and increase our green financing.

Inhibiting savings habit - National Savings Program

Mongolia has 820 000 households out of which about 760 000 have no savings. We have successfully started National Savings Program in order to contribute to the economy by encouraging savings. Since the inception till 2017-Q1, 50 000 savers joined the program.

Financial Education for general public

Golomt Bank emphasizes the importance of education including financial literacy of all citizens. We provided various financial knowledge workshops, seminars through public media. We run the website www.edu.golomtbank.com for everyone's use, explains the financial, economical concepts in easy to understand manner.

Supporter of Young Generation Education

Golomt Bank was the pioneer among business community to start set of programs to support students. In total the Bank gave scholarships worth of MNT 1 billion to 1300 students. Golomt Bank donates money to Mongolian Children's Fund (so far it accumulated MNT 649 million).

"Green" Bank initiatives

We call for eco-friendly manner among our employees and partners. We organized a campaign by offering e-banking services to its customers to reduce paper usage. We also undertook "Sustainable Financing – 2016" campaign within the bank, and eliminated many of the paper reporting, shifted to online reporting, shared the statistics and knowledge on environmental impact of our actions to increase awareness among our employees.

Student Research Conference

In 2016, Golomt Bank organized Student Research Conference for fifteenth time, where 173 students submitted 109 research materials.

Supporter of Olympic Games

Golomt Bank supported 2016 Olympic Games by sponsoring TV program which aimed to promote and raise public awareness about Olympic Games and donated MNT 5 000 000 to Olympic Games Development Fund.

INDEPENDENT AUDITOR’S REPORT

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Audi¬tor’s Report

31 December 2016

pwc

Incorporation decision	Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995.	
	Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011.	
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005.	
	The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.	
	The Subsidiary holds the State Registration Certificate No. 9011287134 with registration No.5481589 newly granted to the Subsidiary by the State Registration Office of Mongolia on 02 November 2011.	
	The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 02 November 2011 issued by the Financial Regulatory Commission of Mongolia.	
Board of Governors	Ch.Munkhtsetseg	Chairwoman
	Z.Temuun	Member
	Urs E. Schwarzenbach	Member
	D.Munkhtur	Member
	J.Unenbat	Independent Member
	López Abelló	Independent Member
Executive Officers	U.Ganzorig	Chief Executive Officer
	G.Ganbold	President
	Tomas Bravenec	Deputy CEO
	B.Enkhtuya	Deputy CEO
	N.Tserendavaa	Deputy CEO
	T.Nyamsuren	Deputy CEO
	M.Chimegmunkh	CFO, Director of Financial Management Division
	A.Enkhbayar	Director of Risk Management Division
	Yo.Purevbat	Director of Operations Division
	U.Khosjargal	Director of Channel Management Division
	D.Badral	Director of Corporate Banking Division
	M.Sainbileg	Director of Information Technology Division
	A.Odonbaatar	Director of Audit Division

Golomt Bank

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 consolidated and separate financial statements present fairly, in all material respects, the consolidated financial position of the Golomt Bank LLC (the "Bank") and its subsidiary Golomt Securities LLC (together - the "Group") and separate financial position of the Bank as at 31 December 2016, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

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

- the consolidated and separate statements of financial position as at 31 December 2016;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Matthew Pottle
Partner
PricewaterhouseCoopers Audit LLC

Ulaanbaatar, Mongolia
22 March 2017

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

Golomt Bank
Consolidated Statement of Financial Position

In thousands of Mongolian Tugriks	Note	Group 31 December 2016	Group 31 December 2015	Bank 31 December 2016	Bank 31 December 2015
Assets					
Cash and balances with central bank (other than mandatory reserve)	7	317,585,827	158,189,289	316,801,192	158,124,287
Mandatory cash balances with the Bank of Mongolia	8	315,633,095	260,739,412	315,633,095	260,739,412
Financial assets at fair value through profit or loss	9	395,641,113	5,442,398	395,422,594	5,410,038
Reverse sale and repurchase agreement	10	9,995,766	-	9,995,766	-
Due from other banks	11	792,154,555	349,234,005	792,154,555	349,234,005
Loans and advances to customers	12	2,034,859,755	2,013,610,787	2,034,859,755	2,013,610,787
Short-term investment securities	13	41,979,911	-	41,979,911	-
Investment securities available for sale	14	126,165,928	68,088,050	126,165,928	68,088,050
Investment securities held to maturity	15	121,553,766	594,170,820	120,274,349	592,831,917
Investment properties	16	51,291,334	1,209,050	51,291,334	1,209,050
Investment in subsidiary	17	-	-	1,200,000	1,200,000
Derivative financial instruments	40	177,021,621	40,207,014	177,021,621	40,207,014
Other assets	18	28,381,165	22,786,957	28,333,835	22,738,029
Intangible assets	19	13,948,312	14,740,580	13,946,737	14,735,999
Premises and equipment	20	171,022,155	176,633,646	171,008,642	176,618,746
Repossessed collateral	21	44,809,609	100,094,904	44,809,609	100,094,904
Non-current assets classified as held for sale	22	17,444,424	-	17,444,424	-
Total assets		**4,659,488,336**	**3,805,146,912**	**4,658,343,347**	**3,804,842,238**
Liabilities					
Due to other banks	23	121,902,017	90,000,670	121,902,017	90,000,670
Customer accounts	24	2,803,875,469	2,079,828,919	2,803,327,560	2,079,800,594
Other borrowed funds	25	1,195,869,997	1,014,934,955	1,195,869,997	1,014,934,955
REPO arrangements	26	37,408,551	174,280,920	37,408,551	174,280,920
Current income tax liability	34	-	2,014,343	-	2,014,312
Deferred tax liability	34	10,678,082	3,077,512	10,679,318	3,072,994
Provision for credit related commitments	39	793,072	-	793,072	-
Other liabilities	27	34,093,768	12,381,355	34,055,598	12,355,514
Subordinated debt	28	87,733,803	70,060,229	87,733,803	70,060,229
Total liabilities		**4,292,354,759**	**3,446,578,903**	**4,291,769,916**	**3,446,520,188**
Equity					
Preferred shares	29	25,778,900	25,778,900	25,778,900	25,778,900
Share capital	29	26,367,593	26,367,593	26,367,593	26,367,593
Share premium		46,583,557	46,583,557	46,583,557	46,583,557
Retained earnings		240,998,876	247,780,795	240,438,730	247,534,836
Other reserves		27,404,651	12,057,164	27,404,651	12,057,164
Total equity		**367,133,577**	**358,568,009**	**366,573,431**	**358,322,050**
Total liabilities and equity		**4,659,488,336**	**3,805,146,912**	**4,658,343,347**	**3,804,842,238**

Approved for issue and signed on behalf of the Bank's management on 22 March 2017.

CH. MUNKHTSETSEG
Chairwoman, Board of Governors

U. GANZORIG
Chief Executive Officer

M. CHIMEGMUNKH
Chief Financial Officer

МОНГОЛ УЛС
ГОЛОМТ БАНК
ТТГ1075 2075377
GOLOMT BANK

The notes set out on pages 8 to 106 form an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Mongolian Tugriks	Notes	Group		Bank	
		2016	2015	2016	2015
Interest income	30	332,107,188	314,978,219	331,899,510	314,829,554
Interest expense	30	(246,411,088)	(213,293,561)	(246,415,535)	(213,295,342)
Net interest income		**85,696,100**	**101,684,658**	**85,483,975**	**101,534,212**
Provision for loan impairment	12	(51,903,798)	(49,703,415)	(51,903,798)	(49,703,415)
Net interest income after provision for loan impairment		**33,792,302**	**51,981,243**	**33,580,177**	**51,830,797**
Fee and commission income	31	28,441,027	21,438,789	27,982,366	21,044,025
Fee and commission expense	31	(7,699,015)	(6,949,406)	(7,608,826)	(6,886,011)
Gains less losses from financial assets at fair value through profit or loss, including financial derivatives	9, 40	137,719,657	30,796,564	137,713,871	30,796,564
Gains less losses from trading in foreign currencies and precious metals		15,124,620	14,145,897	15,124,620	14,143,685
Foreign exchange translation gains less losses		(111,669,509)	(5,227,275)	(111,710,252)	(5,235,619)
Provision charge for other assets	18	(3,646,340)	(1,245,821)	(3,644,340)	(1,245,821)
Provision release/(charge) for repossessed collateral	21	(2,345,199)	(950,575)	(2,345,199)	(950,575)
Provision charge for guarantee and LC		(793,072)	-	(793,072)	-
Dividend received		306,444	213,933	306,444	213,933
Other operating income	32	1,397,036	4,378,078	1,391,723	4,377,442
Administrative and other operating expenses	33	(77,568,743)	(75,792,857)	(77,251,293)	(75,362,030)
Profit before tax		**13,059,208**	**32,788,570**	**12,746,219**	**32,726,390**
Income tax expense	34	(7,471,460)	(6,746,118)	(7,472,658)	(6,741,579)
Profit for the year		**5,587,748**	**26,042,452**	**5,273,561**	**25,984,811**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investment:					
- Gains less losses arising during the year		534,662	6,539,214	534,662	6,539,214
Income tax recorded directly in other comprehensive income		(295,339)	(1,311,457)	(295,339)	(1,311,457)
Items that will not be reclassified to profit or loss					
Revaluation of premises and equipment		2,738,497	-	2,738,497	-
Other comprehensive income	**35**	**2,977,820**	**5,227,757**	**2,977,820**	**5,227,757**
Total comprehensive income for the year		**8,565,568**	**31,270,209**	**8,251,381**	**31,212,568**

The notes set out on pages 8 to 106 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Group								
In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Share-based payment reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**1,176,486**	**(646,693)**	**7,844,139**	**-**	**222,858,983**	**327,928,329**
Profit for the year		-	-	-	-	-	-	-	26,042,452	**26,042,452**
Other comprehensive income	35	-	-	-	-	5,227,757	-	-	-	**5,227,757**
Total comprehensive income for 2015		**-**	**-**	**-**	**-**	**5,227,757**	**-**	**-**	**26,042,452**	**31,270,209**
Share issue through options exercise	29	-	150,500	707,650	-	-	-	-	-	**858,150**
Reversal of share-based payment reserve		-	-	1,176,486	(1,176,486)	-	-	-	-	**-**
Dividends declared and paid	36	-	-	-	-	-	-	-	(1,488,679)	**(1,488,679)**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	-	368,039	**-**
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,581,064**	**7,476,100**	**-**	**247,780,795**	**358,568,009**
Profit for the year		-	-	-	-	-	-	-	5,587,748	**5,587,748**
Other comprehensive income	35	-	-	-	-	239,323	2,738,497	-	-	**2,977,820**
Total comprehensive income for 2016		**-**	**-**	**-**	**-**	**239,323**	**2,738,497**	**-**	**5,587,748**	**8,565,568**
Transfer of revaluation surplus on premises	36	-	-	-	-	-	(569,729)	-	569,729	**-**
Transfer to regulatory										
reserve (Note 12)		-	-	-	-	-	-	12,581,184	(12,581,184)	**-**
Transfer to other reserves	4.27	-	-	-	-	-	-	358,212	(358,212)	**-**
Balance at 31 December 2016		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,820,387**	**9,644,868**	**12,939,396**	**240,998,876**	**367,133,577**

The notes set out on pages 8 to 106 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Bank								
In thousands of Mongolian Tugriks	**Note**	**Preferred shares**	**Share capital**	**Share premium**	**Share-based payment reserve**	**Revaluation reserve for AFS securities**	**Revaluation reserve for premises**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**1,176,486**	**(646,693)**	**7,844,139**	**-**	**222,670,665**	**327,740,011**
Profit for the year		-	-	-	-	-	-	-	25,984,811	**25,984,811**
Other comprehensive income	35	-	-	-	-	5,227,757	-	-	-	**5,227,757**
Total comprehensive income for 2015		**-**	**-**	**-**	**-**	**5,227,757**	**-**	**-**	**25,984,811**	**31,212,568**
Share issue through options exercise	29	-	150,500	707,650	-	-	-	-	-	**858,150**
Reversal of share-based payment reserve		-	-	1,176,486	(1,176,486)	-	-	-	-	**-**
Dividends declared and paid	36	-	-	-	-	-	-	-	(1,488,679)	**(1,488,679)**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	-	368,039	**-**
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,581,064**	**7,476,100**	**-**	**247,534,836**	**358,322,050**
Profit for the year		-	-	-	-	-	-	-	5,273,561	**5,273,561**
Other comprehensive income	35	-	-	-	-	239,323	2,738,497	-	-	**2,977,820**
Total comprehensive income for 2016		**-**	**-**	**-**	**-**	**239,323**	**2,738,497**	**-**	**5,273,561**	**8,251,381**
Transfer of revaluation surplus on premises		-	-	-	-	-	(569,729)	-	569,729	**-**
Transfer to regulatory reserve (Note 12)		-	-	-	-	-	-	12,581,184	(12,581,184)	**-**
Transfer to other reserves	4.27	-	-	-	-	-	-	358,212	(358,212)	**-**
Balance at 31 December 2016		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,820,387**	**9,644,868**	**12,939,396**	**240,438,730**	**366,573,431**

The notes set out on pages 8 to 106 form an integral part of these financial statements.

Consolidated Statement of Cashflows

In thousands of Mongolian Tugriks	Note	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash flows from operating activities					
Profit before tax		**13,059,208**	**32,788,570**	**12,746,219**	**32,726,390**
Adjustments to:					
Impairment provision for loans and advances to customers	12	51,903,798	49,703,415	51,903,798	49,703,415
Gains less losses from financial assets at fair value through profit or loss	9, 40	(137,716,201)	(30,796,564)	(137,713,871)	(30,796,564)
Gain on disposal of properties		-	(636)	-	-
Foreign exchange (gains)/losses		111,667,665	5,227,275	111,710,252	5,235,619
Provision for other assets	18	3,646,340	1,245,821	3,644,340	1,245,821
Provision for guarantee and LC		793,072	-	793,072	-
Depreciation expense	20	9,665,371	9,252,991	9,661,969	9,248,578
Amortisation expense	19	2,849,105	4,503,962	2,845,311	4,499,708
Property and equipment written off	20	(244,481)	315,510	(244,481)	315,510
Impairment provision for repossessed collateral	21	2,345,199	950,575	2,345,199	950,575
Non cash dividend received		-	213,933	-	213,933
Interest income	30	(332,111,635)	(314,978,219)	(331,899,510)	(314,829,554)
Interest expense	30	246,415,535	213,293,561	246,415,535	213,295,342
Cash flows used in operating activities before changes in operating assets and liabilities		**(27,727,024)**	**(28,279,806)**	**(27,792,167)**	**(28,191,227)**
(Increase)/decrease in mandatory cash balances with the Bank of Mongolia		(54,893,683)	17,978,675	(54,893,683)	17,978,675
Decrease/(increase) in due from other banks		59,837,125	(199,047,369)	59,837,126	(199,047,369)
Increase in loans and advances		(32,946,006)	(155,404,681)	(32,946,006)	(155,404,681)
Increase in other assets		(6,671,097)	(10,844,015)	(6,524,386)	(9,794,501)
Increase in repossessed collateral		(67,526,708)	-	(67,526,708)	-
Increase/(decrease) in due to banks		21,570,424	(42,629,867)	21,570,424	(42,629,867)
Increase/(decrease) in customer account		471,832,917	(162,408,755)	471,259,423	(162,408,755)
Increase/(decrease) in other liabilities		18,644,377	(14,994,007)	18,664,629	(14,954,876)
Net cash provided from/(used in) operating activities before tax and interest		**382,120,325**	**(595,629,825)**	**381,648,652**	**(594,452,601)**
Tax paid		(2,014,343)	(4,552,279)	(2,014,312)	(4,544,841)
Interest received		265,927,495	281,427,485	265,715,369	281,258,500
Interest paid		(243,138,932)	(204,155,776)	(243,138,932)	(204,153,925)
Net cash provided from/(used in) operating activities		**402,894,545**	**(522,910,395)**	**402,210,777**	**(521,892,867)**

Consolidated Statement of Cashflows

		Group		Bank	
In thousands of Mongolian Tugriks	**Note**	**2016**	**2015**	**2016**	**2015**
Cash flows from investing activities					
Acquisition of financial investments		(252,257,181)	(96,781,862)	(252,257,181)	(97,781,862)
Proceeds from disposal of financial investments		60,262,660	41,638,772	60,262,660	41,638,772
Acquisition of premises and equipment		(5,093,775)	(94,013,459)	(5,091,827)	(93,996,055)
Proceeds from disposal of premises and equipment	20	3,453,211	445,997	3,453,211	434,477
Acquisition of intangible asset	19	(2,056,837)	(5,434,785)	(2,056,049)	(5,426,390)
Net cash used in investing activities		**(195,691,922)**	**(154,145,337)**	**(195,689,186)**	**(155,131,058)**
Cash flows from financing activities					
Proceeds from issuance of shares		-	858,150	-	858,150
Proceeds from repo arrangements		610,385,555	1,067,333,211	610,385,555	1,067,333,211
Repayment of repo arrangements		(747,335,984)	(1,144,599,240)	(747,335,984)	(1,144,599,240)
Proceeds from drawdown of other borrowed funds		268,144,839	664,996,430	268,144,839	664,996,430
Repayment of other borrowed funds		(156,480,679)	(224,354,043)	(156,480,679)	(224,354,043)
Dividend paid	28	-	(1,488,678)	-	(1,488,678)
Net cash (used in)/provided from financing activities		**(25,286,269)**	**362,745,830**	**(25,286,269)**	**362,745,830**
Effect of exchange rate changes on cash and cash equivalents		(108,762,030)	2,821,108	(108,800,631)	2,821,108
Net increase/(decrease) in cash and cash equivalent		**73,154,324**	**(311,488,794)**	**72,434,691**	**(311,456,987)**
Cash and cash equivalents at the beginning of the period		732,249,612	1,043,738,406	732,184,610	1,043,641,597
Cash and cash equivalents at the end of the period	**7**	**805,403,936**	**732,249,612**	**804,619,301**	**732,184,610**

Refer to Notes 3 and 14 for information on the MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016 for Golomt Bank ("the Bank") and its subsidiary Golomt Securities LLC ("the Group").

As of 31 December 2016 the Bank's immediate and ultimate parent company is Golomt Financial Group LLC (31 December 2015: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with Mongolian regulations based on the decision of Bodi International LLC (former parent of the Bank) in accordance with the legislation of Mongolia. During 2014 Bodi International LLC, the former immediate and ultimate parent of the Bank, has restructured its investment holdings and transferred all shares of the Bank to Golomt Financial Group LLC, a new company registered in Mongolia.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2016, represents the ultimate controlling party of the Bank as of 31 December 2016 and 31 December 2015.

The Bank's shareholders as of 31 December 2016 and 31 December 2015 are disclosed in Note 29.

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

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

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

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

As at 31 December 2016 the Bank had 68 branches within Mongolia (31 December 2015: 71 branches). Also, as at 31 December 2016 the Bank had 20 sub-branches (31 December 2015: 26 sub-branches).

The number of Bank employees as at 31 December 2016 was 1,769 (31 December 2015: 1,872).

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

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

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

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

The principal activities of the Subsidiary include:

- Brokerage service;
- Financial and investment services;
- Underwriting service.

2 Operating Environment of the Group

2.1 General

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

During 2016, the Mongolian economy continued to be negatively impacted by low FDI inflows, currency depreciation, high external debt and political uncertainty, all of which contributed to a decline in gross domestic product in third quarter. This drop was highly associated with the construction and trade sectors. From an expenditure perspective, the decline was in private consumption and gross fixed capital formation. The unemployment rate has increased. However, total number of employees are rising. Then, the household income grew from the beginning of the year as well as household expenditures. The inflation declined dramatically in 2016, well below the 8 percent the central bank targets according to its monetary policy guidelines 2017.

The balance of payment has been negative since 2012. Due to insufficient foreign currency inflows foreign currency reserves ran low, and the national currency depreciated heavily against US dollar until December 2016. Confronted with high external debt pressures and slow economic growth, the government started standby negotiations with the IMF and came up with a program, mostly based on large projects, to revive the economy. The government is also talking about alternative loan solutions for the economy such as Chinese debt.

Mongolia's credit rating was downgraded to B3 in August 2016 and further downgraded to Caa1 in November by Moody's, followed by Fitch. However, Mongolia has recorded some economic progress in 2016. The trade balance is positive as a result of higher export volumes and lower imports. After development of OT phase one, the economy has shown the highest growth in the world. The second phase of the OT mine started its development in 2016. The Government of Mongolia approved an "economic revitalization program" that promotes five main mega projects and contains main 17 targets with 104 objectives to revive the economy. The five main projects are OT underground mine, Tavantolgoi mine, Tavantolgoi power plant, Tavantolgoi railroad and Gatsuurt gold mine. There were also positive news from the global market. Since November, Mongolian main exporting products such as coal and copper price surged on strong Chinese demand.

The financial market continues to be concentrated and characterised by a few banks. The difficult operating environment has had a significant impact on banks, NPL ratios have been rising. The central bank promised to continue the discounted mortgage program in the following years. Except a few funding stops for the mortgage program, it is still successfully ongoing. Money supply nevertheless increased on substantial central bank funding, resulting in significant growth in deposits as well as in total and particularly foreign assets. The central bank had however to raise its policy rate in order to defend the exchange rate, but the central bank was able to reduce it again by 1 percentage point in December 2016.

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

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

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

2 Operating Environment of the Group (continued)

2.1 General (continued)

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

2.2 Currency transactions

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

Date	USD	EUR
31 December 2016	2489.53	2605.79
31 December 2015	1,995.98	2,182.70
31 December 2014	1,885.60	2,293.36
31 December 2013	1,654.10	2,275.63
31 December 2012	1,392.10	1,835.83
31 December 2011	1,396.37	1,806.76

3 Basis of Presentation

3.1 General principles

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

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

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

3.2 Functional and presentation currency

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

3.3 Critical accounting estimates and judgments in applying accounting policies

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

(i) Impairment losses on loans and advances

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

A 20% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MNT 18,143,242 thousand (2015: MNT 19,018,891 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

(ii) Revaluation of premises and investment properties

The Group uses revaluation model for its premises and fair value model for investment properties. In accordance with the Bank's accounting policy and relevant IFRS, the Group's internal valuation specialist team monitors and compares the movements in market value of its premises and investment properties to the carrying value. Based on the internal valuation specialist team's assessment, the Group recognised an increase in fair value of buildings in the amount of MNT 2,738,497 thousand as of 31 December 2016, which led to increase in revaluation reserve for premises within equity as of 31 December 2016.

The basis used for the appraisal was market value for premises and investment properties based on comparable market data. For total fair value of the Group's premises and investment properties as of 31 December 2016 and 31 December 2015, based on observable market prices in the active market, refer to Notes 16 and 20.

If average prices of premises would be 10% higher/(lower) compared to the current carrying value, carrying value of buildings would increase/(decrease) by approximately MNT 14,425,467 thousand as of 31 December 2016 (31 December 2015: MNT 14,541,873 thousand). If average prices of investment properties would be 10% higher/(lower) compared to the current carrying value, carrying value of investment properties would increase/(decrease) by approximately MNT 5,129,133 thousand as of 31 December 2016. The impact of changes in prices of investment properties is unlikely to be material.

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

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

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 595,840,669 thousand as at 31 December 2016 (31 December 2015: MNT 478,754,724 thousand) and are disclosed in Note 25.

3 Basis of Presentation (continued)

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

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

During 2016, the Bank participated in two tranches of MIK securitisation transaction. The Bank sold the 8% mortgage loans to MIK SPC8 and MIK SPC9, special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 4.5% and Junior RMBS notes bearing interest at 10.5%. The loans have been purchased by abovementioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e. MIK. On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 4% funding received from the Bank of Mongolia for financing the original 8% mortgage lending.

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

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

(v) Investment in Investment Fund

As disclosed in Note 14, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2016 the Bank owns 10% of investment units of this Fund, while 90% of investment units have not been yet sold as of the date of approval of these financial statements. Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements. In making this judgment, management has considered the following:

- the Fund is managed by managing company which is not related to the Bank's owners or management, and the Bank has no right or ability to replace the managing company as of 31 December 2016;
- the managing company of the Fund is actively seeking additional investors for remaining 90% units in present, and if additional investors are not found, it is unlikely that the Fund would continue operating;
- further, by the contract and the law, Golomt Bank and other investors are prohibited to influence the decision and operation of management company's investment fund and influence its independence;
- maximum loss that Golomt Bank can make is to lose its own invested money, but there are no guarantees or obligations to cover losses of other investors. In terms of returns, they are related to Golomt Bank's own purchased investment units i.e the Bank is not entitled to any rewards related to the investment made by other investors;
- the Bank is not involved in approving investments made by the fund and the managing company of the fund can decide to make investment in other types of assets, and no approval of the Bank is needed for such decision.

(vi) Going concern

These financial statements reflect the Group management's current assessment of the impact of the Mongolian business environment on the operations and the financial position of the Group. The future economic direction of Mongolia is largely dependent upon the effectiveness of measures undertaken by the Government and other factors, including regulatory and political developments which are beyond the Group's control. The Group's management cannot predict what impact these factors can have on the Group's financial position in future.

These financial statements were prepared on a going concern assumption. The Group's liquidity position and information on the management of liquidity risk is described in Note 37. For prompt management of the liquidity risk the Group regularly monitors external factors, which could influence the Group's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Group analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Group sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

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

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

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

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives (including long-term swaps) and unrealized foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e. until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 20,290,007 thousand is recognized as of 31 December 2016 (31 December 2015: MNT 10,051,754 thousand), refer to Note 34.

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

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

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e. delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax any impairment provision charges for the performing loans represent non-deductible expenses for the period. As in previous periods the Bank has determined impairment provision on performing loans as of 31 December 2016, 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 higher than IFRS provision as of 31 December 2016 (31 December 2015: lower than IFRS provision).

3 Basis of Preparation (continued)

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

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 liability of MNT 1,221,508 thousand (31 December 2015: deferred tax asset of MNT 11,495,335 thousand) has been recognized in these financial statements.

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

Similarly, in accordance with the abovementioned regulations of the Bank of Mongolia, interest income on loans overdue more than 90 days should not be recognized in the Bank's profit or loss account, which is not in line with IFRS treatment. As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns. As a result, the Bank has recognized deferred tax liability of MNT 13,323,282 thousand as of 31 December 2016 (31 December 2015: MNT 5,143,512). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Group's tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote.

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

(ix) Deferred income tax asset recognition

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

- growth rate of Mongolian economy, inflation and foreign currency rates are based on the projections of reputable international institutions (such as World Bank) for Mongolia;
- increase in interest margin in 2017 and 2018 as the Bank is expanding loan portfolio, particularly consumer lending;
- decrease in non-performing loans in 2018 due to write-offs of non-performing loans in 2017;
- other assumptions are based on the Bank's current in 2016 or early 2017.

4 Summary of Significant Accounting Policies

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

4.1 Consolidation

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

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

4.2 Financial assets

The Group classifies its financial assets in the following categories:

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

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

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

(i) Key measurement terms

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

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

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

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

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.

4.2 Financial assets (continued)

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

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

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

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

(ii) Initial recognition of financial assets

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

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

(iii) Derecognition of financial assets

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

4.3 Foreign currency transactions

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

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

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

	2016	2015
Mongolian national Tugriks/US Dollar		
At 31 December	2,489.53	1,995.98
Mongolian national Tugriks/EURO		
At 31 December	2,605.79	2,182.70
Mongolian national Tugriks/British Pound Sterling		
At 31 December	3,057.89	2,957.54
Mongolian national Tugriks/Chinese Yuan		
At 31 December	357.96	307.54
Mongolian national Tugriks/Russian Ruble		
At 31 December	41.03	27.40

4.4 Cash and cash equivalents

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

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

4.5 Mandatory cash balances with the Central Bank of Mongolia

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

4.6 Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

4.7 Due from other banks

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

4.8 Loans and advances to customers

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

4.9 Short-term investment securities

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

4.10 Investments securities held to maturity

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

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

4.11 Investment securities available for sale

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

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

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

4.12 Promissory notes purchased

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

4.13 Non-Current Assets Classified as Held for Sale

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

4.14 Impairment of financial assets

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

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

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

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

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

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

4.14 Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

4.15 Offsetting

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

4.16 Financial liabilities carried at amortised cost

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

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

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

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

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

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

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

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

4.17 Repurchase and reverse repurchase agreements

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

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

4.18 Premises and equipment

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

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

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

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

4.18 Premises and equipment (continued)

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

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

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

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

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

4.19 Investment property

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

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

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

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

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

4.20 Intangible assets

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

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

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

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

4.21 Operating leases

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

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

4.22 Share capital, including preferred shares

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

4.23 Share premium

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

4.24 Dividends

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

4.25 Contingent assets and liabilities

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

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

4.26 Credit related commitments

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

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

- there is a high extent of certainty at the reporting date that the use of funds will be required under the terms of the agreement (e.g. draw down under a credit line agreement, payment in accordance with a financial guarantee contract);

4.26 Credit related commitments (continued)

- there is objective evidence of impairment at the reporting date, i.e. the factors that indicate that the Group will not be able to recover in full the amounts that will be advanced to the borrower/beneficiary in accordance with the terms of agreement.

4.27 Provisions

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

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

4.28 Government grants

The benefit of borrowings from the Bank of Mongolia (acting as an extension of the Government) at a below market rate of interest is treated as a government grant. The borrowing is measured at amortized cost using market interest rate and recognized within other borrowed funds. The benefit of the below-market rate of interest (i.e. gain on initial recognition of the borrowing) is measured as the difference between the initial carrying value of the borrowing determined in accordance with IAS 39 and the proceeds received, is recognized as government grant income and deferred over the period of the borrowing.

Related grant income is recognized in profit or loss on a systematic basis using the effective interest rate method over the period of borrowing. Grant income is netted off against interest expenses.

The amount of liabilities for government grants are included in the line 'Other borrowed funds', as management has assessed that related amounts are not material and therefore separate presentation on the Statement of financial position is not required.

4.29 Fiduciary Assets

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

4.30 Taxation

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

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

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

4.31 Employee benefits and social contributions

(i) Short-term benefits

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

(ii) Defined contribution plans

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

4.32 Income and expense recognition

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

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

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

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

4.33 Repossessed collateral

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

4 Summary of Significant Accounting Policies (continued)

4.33 Repossessed collateral (continued)

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

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

4.34 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.

4.35 Renegotiated loans

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

4.36 Share-based payments

The Group recognises the services received or acquired in a share-based payment transaction when the services are received. The Group recognises a corresponding increase in equity if the services were received in an equity-settled share-based payment transaction or a liability if the services were acquired in a cash-settled share-based payment transaction.

For equity-settled share-based payment transactions with service providers, the Group measures services received, and the corresponding increase in equity indirectly, by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, the Group measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

4.37 Amendments of the financial statements after issue

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

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have material impact on the Group:

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities.

In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amended standard did not have a material impact on the Group's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

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

6 New Accounting Pronouncements (continued)

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements. However, it is expected that the introduction of IFRS 9 will have an impact on most financial institutions.

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

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

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

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount.

The economic benefit embodied in the deferred tax assets arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

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

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

Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches: (i) an overlay approach and (ii) a deferral approach. Insurers will have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, entities whose activities are predominantly connected with insurance will have an optional temporary exemption from applying IFRS 9 until 2021.

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

7 Cash and Cash Equivalents

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

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash on hand	101,879,822	91,866,379	101,095,187	91,801,377
Current account with the Bank of Mongolia (other than mandatory reserve)	215,706,005	66,322,910	215,706,005	66,322,910
Cash and cash balances with central bank	**317,585,827**	**158,189,289**	**316,801,192**	**158,124,287**

7 Cash and Cash Equivalents (continued)

Cash and balances with central bank (other than mandatory reserve) are not collateralised. All amounts are neither past due nor impaired as of 31 December 2016 and 31 December 2015. The Bank of Mongolia has a Caa1 rating from Moody's.

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

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

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash and balances with the central banks (Note 7)	317,585,827	158,189,289	316,801,192	158,124,287
Due from banks (Note 11)	294,216,826	149,605,676	294,216,826	149,605,676
Bank of Mongolia treasury bills (Note 13,15)	41,979,911	424,454,647	41,979,911	424,454,647
Government treasury bills (Note 9)	141,625,606	-	141,625,606	-
Reverse sale and repurchase agreement (Note 10)	9,995,766	-	9,995,766	-
Total cash and cash equivalents	**805,403,936**	**732,249,612**	**804,619,301**	**732,184,610**

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Mandatory cash balances with the Bank of Mongolia	315,633,095	260,739,412
Mandatory cash balances with the Bank of Mongolia	**315,633,095**	**260,739,412**

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% (2015: 12.0 %) of customer deposits for a period of 2 weeks. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

9 Financial assets at fair value through profit or loss

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

During the year ended 2016 the Bank has changed its intention on government bonds and treasury bills to trade them on domestic and international stock exchange markets. Subsequently the Bank classified all newly acquired government bonds as designated at fair value through profit or loss investment securities. As at 31 December 2015, government bonds and treasury bills of MNT 64,901,615 thousand were classified in the investment securities held to maturity category and remained in this category during 2016 and until their maturity.

Financial assets at fair value through profit and loss as at 31 December 2016 and 31 December 2015 are as follows:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Government bonds	246,843,505	-	246,643,506	-
Government treasury bills	141,625,606	-	141,625,606	-
Other FVTPL investment securities	7,172,002	5,442,398	7,153,482	5,410,038
Total FVTPL financial assets	**395,641,113**	**5,442,398**	**395,422,594**	**5,410,038**

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

Government bonds are issued by the Ministry of Finance with original maturities ranging from 3 to 53 months (2015: 6 to 121 months), and issued at a discount. Government treasury bills have original maturity up to 3 months and thus represent cash and cash equivalents.

Below is the information on changes in government bonds and treasury bills designated at fair value through profit or loss during the years ended 31 December 2016 and 31 December 2015:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Carrying value as at 1 January	**-**	**-**	**-**	**-**
Acquired	482,261,309	-	482,061,310	-
Matured	(79,313,095)	-	(79,313,095)	-
Effect of exchange rate changes	836,715	-	836,715	-
Unamortized discounted premium	(15,964,109)	-	(15,964,109)	-
Accrued interest income	648,291		648,291	
Fair value as at 31 December	**388,469,111**	**-**	**388,269,112**	**-**

Other financial assets at fair value through profit or loss

Below is the information on changes in the portfolio of other financial assets at fair value through profit or loss during the years ended 31 December 2016 and 31 December 2015:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Fair value as at 1 January	**5,442,398**	**227,942**	**5,410,038**	**227,942**
Acquisitions	240,828	8,629,537	170,445	8,597,177
Disposals of financial assets at FVTPL	(3,094,694)	(693,695)	(3,016,778)	(693,695)
Effect of exchange rate changes	1,654,682	282,309	1,654,682	282,309
Fair value gain or loss from change in net market value	2,928,788	(3,003,695)	2,935,095	(3,003,695)
Fair value as at 31 December	**7,172,002**	**5,442,398**	**7,153,482**	**5,410,038**

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

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

In 2016 the Bank disposed of shares in Turquoise Hill Resources Ltd, listed in the New York Stock Exchanges for USD 905 thousand and shares in Mongolian Mining Corporation Ltd, listed in Honk Kong Stock Exchange for the amount of HKD 4,653 thousand. During the year, the Bank recognized gains of MNT 2,934,893 thousand (2015: MNT 2,878,574 thousand) from change in market value of these shares.

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

In thousands of Mongolian Tugriks	Government bonds	Government treasury bills	Other FVTPL investment securities	Total
Neither past due nor impaired				
- B-	246,643,506	141,625,606	-	388,269,112
- Unrated	-	-	7,153,482	7,153,482
Total neither past due nor impaired	**246,643,506**	**141,625,606**	**7,153,482**	**395,422,594**

10 Reverse sale and repurchase agreements

As of 31 December 2016, the reverse sale and repurchase agreement relates to a short-term agreement with local bank, earning interest rate 15.5% p.a. with original maturity 7 days. The reverse sale and repurchase agreement is fully collateralized by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell or repledge in the case of non-repayment.

11 Due from Other Banks

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Correspondent accounts with other banks		
Domestic	11,734,532	14,294,479
Foreign	742,682,084	334,909,197
Short-term placements of other banks		
Domestic	37,706,210	-
Placements with other banks with original maturities of more than three months	31,729	30,329
Total due from other banks	**792,154,555**	**349,234,005**

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

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

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Neither past due nor impaired		
AA	-	72,182,743
AA-	4,816,688	1,559,383
A+	46,176,779	13,117,265
A	62,596,820	19,186,352
A-	5,407,549	246,998
BBB+	259,099,674	214,492,075
BBB	569,758	438,100
BBB-	-	138,566
BB	107,810,809	2,416,949
BB-	248,953,000	-
B	-	14,261,918
B-	12,397,284	-
Unrated	44,326,194	11,193,656
Total neither past due nor impaired	**792,154,555**	**349,234,005**

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

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 37.

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

12 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Corporate loans	976,217,821	1,205,437,537
Loans to small and medium business	542,679,369	461,558,818
Consumer loans to individuals	256,880,787	194,024,822
Mortgage loans to individuals	349,797,988	247,684,064
Total gross loans and advances to customers	**2,125,575,965**	**2,108,705,241**
Less: Provision for loan impairment	(90,716,210)	(95,094,454)
Total loans and advances to customers	**2,034,859,755**	**2,013,610,787**

The aggregate amount of loans to the 30 biggest customers amounted to MNT 790,641,419 thousand (31 December 2015: MNT 886,299,597 thousand) and represents 37.2% (31 December 2015: 41.9%) of total loans and advances to customers at 31 December 2016. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

12 Loans and Advances to Customers (continued)

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

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

Movements in the provision for loan impairment during 2015 are as follows:

In thousands of Mongolian Tugriks	Corporate loans	Consumer loans to individuals	Loans to small and medium business	Mortgage loans to individuals	Total
Provision for loan impairment at 1 January 2015	**49,180,880**	**2,871,780**	**23,690,355**	**1,238,645**	**76,981,660**
(Recovery of)/provision for impairment during the year	29,054,370	3,375,532	14,836,115	2,437,398	**49,703,415**
Exchange difference	679,099	4,893	26,347	636	**710,975**
Amounts written off during the year as uncollectible	(19,103,086)	(839,897)	(12,358,613)	-	**(32,301,596)**
Provision for loan impairment at 31 December 2015	**59,811,263**	**5,412,308**	**26,194,204**	**3,676,679**	**95,094,454**

In accordance with the regulation of the Bank of Mongolia (the "BOM") it is required to recognize the difference between impairment provision determined in accordance with the regulations of BOM ("BOM impairment provision") and impairment provision determined under IFRS as a reserve in the statement of changes in equity. The amount of the reserve, created by the Bank as of 31 December 2016 was MNT 12,581,183 thousand (31 December 2015: Nil). This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS and the new accounting regulations of the Bank of Mongolia, which are effective from 1 January 2016, and represents regulatory reserve.

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

	2016		2015	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Mortgage & House maintenance.	349,797,988	16.46%	247,684,064	11.75%
Manufacturing	386,262,185	18.17%	405,779,805	19.24%
Mining & Exploration	242,130,121	11.39%	317,435,450	15.05%
Construction	227,687,785	10.71%	252,836,499	11.99%
Trade - Whole & Retail	231,047,086	10.87%	226,603,476	10.75%
Salary & Consumption	250,908,681	11.80%	188,046,423	8.92%
Electricity & Oil	52,953,879	2.49%	94,299,062	4.47%
Real estate	82,144,387	3.86%	84,369,105	4.00%
Finance	43,172,238	2.03%	61,402,508	2.91%
Agriculture	36,271,143	1.71%	63,806,431	3.03%
Transport & Communication	36,270,290	1.71%	33,417,701	1.58%
Tourism	19,748,261	0.93%	27,276,789	1.29%
Infrastructure	8,220,063	0.39%	18,485,159	0.88%
Maintenance	92,410,634	4.35%	23,080,842	1.09%
Healthcare	22,975,984	1.08%	19,417,976	0.92%
Hotel & Restaurant	27,276,519	1.28%	15,204,794	0.72%
Social services	2,682,903	0.13%	19,960,309	0.95%
Home appliances	1,962,418	0.09%	2,155,270	0.10%
Car and vehicles	4,009,689	0.19%	3,823,128	0.18%
Education	2,461,998	0.12%	2,617,177	0.12%
Public service	4,569,404	0.21%	331,831	0.02%
Entrepreneurship	543,857	0.03%	606,498	0.03%
International organisations	68,452	0.00%	64,944	0.00%
Total loans and advances to customers (before impairment)	**2,125,575,965**	**100%**	**2,108,705,241**	**100%**

Information about collateral at 31 December 2016 is as follows:

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

12 Loans and Advances to Customers (continued)

Information about collateral at 31 December 2015 is as follows:

In thousands of Mongolian Tugriks	Corporate loans	Consumer loans to individuals	Loans to small and medium business	Mortgage loans to individuals	Total
Loans collateralised by:					
- residential real estate	297,457,780	2,887,092	260,371,996	222,760,173	**783,477,041**
- other real estate	251,057,173	66,178	29,292,151	1,261,999	**281,677,501**
- tradable securities	152,916,301	-	20,564,676	19,638	**173,500,615**
- cash deposits	150,057,252	33,402,171	8,965,304	778,930	**193,203,657**
- other assets	353,949,031	16,004,452	142,364,691	22,863,324	**535,181,498**
Unsecured loans	-	141,664,929	-	-	**141,664,929**
Total loans and advances to customers	**1,205,437,537**	**194,024,822**	**461,558,818**	**247,684,064**	**2,108,705,241**

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

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

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

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

12 Loans and Advances to Customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

In thousands of Mongolian Tugriks	Corporate loans	Consumer loans to individuals	Loans to small and medium business	Mortgage loans to individuals	Total
Neither past due nor impaired					
Excellent	751,381,007	180,913,163	308,756,493	233,688,558	**1,474,739,221**
Good	24,337,172	-	1,239,542	-	**25,576,714**
Restructured	209,934,879	30,601	17,352,153	397,705	**227,715,338**
Total neither past due nor impaired	**985,653,058**	**180,943,764**	**327,348,188**	**234,086,263**	**1,728,031,273**
Past due but not impaired					
- less than 30 days overdue	4,640,265	2,235,297	21,377,136	2,826,375	**31,079,073**
- 30 to 90 days overdue	1,870,732	3,949,952	18,644,558	4,754,465	**29,219,707**
- 91 to 180 days overdue	10,507,728	2,706,119	24,121,421	2,058,997	**39,394,265**
- 181 to 360 days overdue	9,050,820	2,130,986	17,429,320	2,320,463	**30,931,589**
- over 360 days overdue	47,667,463	2,058,704	19,057,338	1,637,501	**70,421,006**
Total past due but not impaired	**73,737,008**	**13,081,058**	**100,629,773**	**13,597,801**	**201,045,640**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	25,257,864	-	2,477,420	-	**27,735,284**
- 30 to 90 days overdue	-	-	-	-	**-**
- 91 to 180 days overdue	-	-	13,711,995	-	**13,711,995**
- 181 to 360 days overdue	27,704,265	-	-	-	**27,704,265**
- over 360 days overdue	93,085,342	-	17,391,442	-	**110,476,784**
Total individually impaired loans (gross)	**146,047,471**	**-**	**33,580,857**	**-**	**179,628,328**
Less impairment provisions	**(59,811,263)**	**(5,412,308)**	**(26,194,204)**	**(3,676,679)**	**(95,094,454)**
Total loans and advances to customers	**1,145,626,274**	**188,612,514**	**435,364,614**	**244,007,385**	**2,013,610,787**

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

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

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

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

The effect of collateral at 31 December 2016:

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

The effect of collateral at 31 December 2015:

In thousands of Mongolian Tugriks	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,011,403,838	5,842,986,430	194,033,699	133,391,374
Consumer loans to individuals	52,139,520	169,187,406	141,885,302	201,163
Loans to small and medium business	368,226,102	1,918,631,215	93,332,716	43,461,612
Mortgage loans to individuals	247,271,672	645,385,686	412,392	334,571
Total	**1,679,041,132**	**8,576,190,737**	**429,664,109**	**177,388,720**

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

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

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

13 Short-term Investment Securities

Short-term investment securities as of 31 December 2016 represent interest earning short-term treasury bills of the Bank of Mongolia ("BoM bills") issued at discount. In 2016, the Bank has changed its intention regarding BoM bills to no longer keep them until maturity date as these BoM bills can be sold for liquidity purpose or be traded. Thus, newly acquired BoM bills are classified as loans and receivables and carried at amortised cost. As at 31 December 2015, BoM Treasury bills of MNT 424,454,647 thousand were classified in the investment securities held to maturity category and remained in this category until maturity.

13 Short-term Investment Securities (continued)

Below is the information on changes in the treasury bills of the BOM during the year ended 31 December 2016:

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Carrying value as at 1 January	**-**	**-**
Acquired	7,032,595,236	-
Matured	(6,990,615,325)	-
Carrying value as at 31 December	**41,979,911**	**-**

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

As of 31 December 2016, treasury bills amounted to MNT 15,390,500 thousands were collateralized under REPO arrangements disclosed in Note 26 and Note 39.

14 Investment Securities Available for Sale

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Unquoted equities, at fair value	58,493,633	58,485,255
Quoted equity securities, at fair value	67,672,295	9,602,795
Total	**126,165,928**	**68,088,050**

Below is the information on changes in the portfolio of investment securities available for sale during the years ended 31 December 2016 and 31 December 2015:

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Carrying amount at 1 January	**68,088,050**	**61,020,732**
Fair value gains less losses	534,665	6,539,214
Purchases – quoted	82,206	213,572
Purchases – unquoted	49,445,700	437,832,600
Disposals of investment securities available for sale – quoted	(8,715)	-
Disposals of investment securities available for sale – unquoted	(49,445,700)	(437,832,600)
Transferred from loans and advances	56,073,539	
Exchange differences	1,396,183	314,532
Carrying amount at 31 December	**126,165,928**	**68,088,050**

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

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

Fair value gains of MNT 534,662 thousand (31 December 2015: MNT 6,539,214 thousand) in other comprehensive income for the year ended 2016 represents the fair value adjustment of available for sale investment.

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

15 Investment Securities Held to Maturity

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Treasury bills of the Bank of Mongolia (a)	-	424,454,647	-	424,454,647
Government bonds (b)	7,025,209	66,223,099	5,745,792	64,901,615
MIK bond (c)	69,646,125	64,008,203	69,646,125	64,008,203
Promissory Notes (d)	24,156,514	39,467,452	24,156,514	39,467,452
Corporate bonds	20,725,918	17,419	20,725,918	-
Total investment securities held to maturity	**121,553,766**	**594,170,820**	**120,274,349**	**592,831,917**

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

(a) Treasury bills of the Bank of Mongolia ("BOM")

The Bank of Mongolia treasury bills ("BOM bills") are interest earning short-term bills issued at a discount. BOM treasury bills purchased in 2016 are classified as short-term investments. Refer to Note 13. Below is the information on changes in the treasury bills of BOM classified as held to maturity investments during the years ended 31 December 2016 and 31 December 2015:

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Carrying value as at 1 January	**424,454,647**	**209,591,218**
Acquired	-	2,305,701,429
Matured	(424,454,647)	(2,090,838,000)
Carrying value as at 31 December	**-**	**424,454,647**

Information on interest rates and maturity of treasury bills of the Bank of Mongolia as of 31 December 2016 and 31 December 2015 are disclosed in Note 37. 1

(b) Government bonds and treasury bills

Government bonds are issued by the Ministry of Finance with original maturities ranging from 85 to 121 months (2015: 6 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 2016 are classified as financial assets at fair value through profit or loss. Refer to Note 9.

15 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 2016 and 31 December 2015:

In thousands of Mongolian Tugriks	Group 31 December 2016	31 December 2015	Bank 31 December 2016	31 December 2015
Carrying value as at 1 January	**66,223,098**	**66,121,588**	**64,901,615**	**65,968,346**
Acquired	2,478,040	52,893,357	-	50,791,300
Matured	(61,951,240)	(52,280,700)	(59,488,900)	(51,365,400)
Unamortized discounted premium	1,132,028	(1,398,888)	1,132,027	(1,380,372)
Accrued interest income	(856,717)	887,741	(798,950)	887,741
Fair value as at 31 December	**7,025,209**	**66,223,098**	**5,745,792**	**64,901,615**

(c) MIK bond

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

During the first quarter of 2016, the Bank participated in the eighth MIK securitization transaction. The Bank sold total of MNT 27,907,800 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 25,117,000 thousand Senior RMBS notes bearing interest at 4.5% and MNT 2,790,800 thousand Junior RMBS notes bearing interest at 10.5%.

During the second quarter of 2016, the Bank participated in the ninth MIK securitization transaction. The Bank sold total of MNT 26,809,700 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 24,128,700 thousand Senior RMBS notes bearing interest at 4.5% and MNT 2,681,000 thousand Junior RMBS notes bearing interest at 10.5%.

Senior RMBS notes were recognized as Investment securities available for sale, while Junior RMBS notes were recognized as Investment securities held to maturity, in accordance with the management's intentions. During 2016, the Bank sold Senior Tranche RMBS notes in amount of MNT 49,245,700 thousand to the Bank of Mongolia as repayment of 4% funding received under mortgage lending program.

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

(d) Promissory Notes

As of 31 December 2016, the Bank has invested in MNT 44,882,432 thousand (2015: MNT 39,467,452 thousand) of promissory notes which have interest rates ranging from 4% to 15.2% p.a. and original maturities ranging from 365 to 1032 days (2015: interest rate of 8% p.a. and original maturities ranging from 246 to 360 days). Promissory notes of MNT 22,000,000 thousands were collateralized under REPO arrangements disclosed in Note 26 and Note 39 as at 31 December 2016.

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2016 based on S&P rating agency is as follows:

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

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2015 is as follows:

In thousands of Mongolian Tugriks	Government bonds and treasury bills	MIK bond	Promissory Notes	Corporate bonds	Total
Neither past due nor impaired					
- B	424,454,647	64,901,615	-	39,467,452	528,823,714
- Unrated	-	-	64,008,203	-	64,008,203
Total neither past due nor impaired	**424,454,647**	**64,901,615**	**64,008,203**	**39,467,452**	**592,831,917**

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 2016 and 31 December 2015.

16 Investment Properties

Investment properties increased by MNT 50,082,284 thousand during 2016, by transferring from repossessed collaterals on the basis of the Group's intention to keep the premises for the purposes of earning rental income, capital appreciation, or both, and not to occupy premises by the Group. Accounting policy for investment properties is disclosed in Note 4.19.

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

17 Investment in Subsidiary

Investment in subsidiary as of 31 December 2016 and 31 December 2015 amounted to MNT 1,200,000 represents the 100% ownership of Golomt Securities LLC, a Company incorporated in Mongolia to operate in the field of brokerage and dealing. The investment is unquoted and carried at cost.

18 Other Assets

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Other financial assets:				
Receivables on cash and settlements services	6,787,747	1,056,063	6,787,747	1,056,063
Receivable from companies	1,659,639	3,854,468	1,646,405	3,854,448
Receivable from individuals	33,177	260,314	33,177	260,314
Other financial assets	6,984,214	6,414,964	6,957,399	6,384,275
Less: provision for impairment	(3,242,005)	(2,895,607)	(3,242,005)	(2,895,607)
Total financial assets	**12,222,772**	**8,690,202**	**12,182,723**	**8,659,493**
Other non-financial assets:				
Prepayments for employees benefits	4,392,540	8,524,141	4,390,553	8,524,141
Prepayment for maintenance of buildings	1,186,154	45,510	1,186,154	45,510
Office materials and supplies	595,090	596,546	595,090	596,546
Prepayments for rent	70,300	1,587,499	66,220	1,569,925
Prepayments for employees	14,864	432	14,244	432
Other prepayments	9,536,844	2,899,061	9,536,250	2,898,417
Other non-financial assets	362,601	443,566	362,601	443,565
Total non-financial assets	**16,158,393**	**14,096,755**	**16,151,112**	**14,078,536**
Total other assets	**28,381,165**	**22,786,957**	**28,333,835**	**22,738,029**

18 Other Assets (continued)

Total prepayments for employee benefits include prepayments related to loans to employees at preferential rates of MNT 3,974,876 thousand (31 December 2015: 8,524,141 thousand). In accordance with IFRS, fair value adjustments at initial recognition of loans to employees issued at preferential rates represents salary prepayment and is recognised within other non-financial assets.

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

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

Analysis by credit quality of other financial assets outstanding at 31 December 2015 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	519,125	258,623	3,087,327	4,751,611	**8,616,686**
Total neither past due nor impaired	**519,125**	**258,623**	**3,087,327**	**4,751,611**	**8,616,686**
Impaired					
- less than 30 days overdue	-	-	-	-	**-**
- 30 to 90 days overdue	60,782	1,691	-	-	**62,473**
- 91 to 180 days overdue	-	-	-	-	**-**
- 181 to 360 days overdue	-	-	-	-	**-**
- over 360 days overdue	476,156	-	767,121	1,632,664	**2,875,941**
Total impaired	**536,938**	**1,691**	**767,121**	**1,632,664**	**2,938,414**
Less impairment provisions	**(313,912)**	**-**	**(816,815)**	**(1,764,880)**	**(2,895,607)**
Total other financial assets	**742,151**	**260,314**	**3,037,633**	**4,619,395**	**8,659,493**

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

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

Movements in the provision for asset impairment during 2015 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 2015	**331,424**	**-**	**66,540**	**1,478,124**	**1,876,088**
Provision for impairment during the year	208,790	-	750,275	286,756	**1,245,821**
Exchange difference	38,774	-	-	-	**38,774**
Amounts written off during the year as uncollectible	(265,076)	-	-	-	**(265,076)**
Provision for asset impairment at 31 December 2015	**313,912**	**-**	**816,815**	**1,764,880**	**2,895,607**

19 Intangible Assets

	Group			Bank		
In thousands of Mongolian Tugriks	Computer software licences	Land use right	Total	Computer software licences	Land use right	Total
Cost at 1 January 2015	20,154,448	673,313	20,827,761	19,864,652	673,313	**20,537,965**
Accumulated amortization	(7,018,004)	-	(7,018,004)	(6,728,648)	-	**(6,728,648)**
Carrying amount at 1 January 2015	**13,136,444**	**673,313**	**13,809,757**	**13,136,004**	**673,313**	**13,809,317**
Additions	5,434,785	-	5,434,785	5,426,390	-	**5,426,390**
Charge for the year (Note 33)	(4,503,962)	-	(4,503,962)	(4,499,708)	-	**(4,499,708)**
Carrying amount at 31 December 2015	**14,067,267**	**673,313**	**14,740,580**	**14,062,686**	**673,313**	**14,735,999**
Cost at 1 January 2016	**25,589,233**	**673,313**	**26,262,546**	**25,291,042**	**673,313**	**25,964,355**
Accumulated amortization	(11,521,966)	-	(11,521,966)	(11,228,356)	-	**(11,228,356)**
Carrying amount at 1 January 2016	**14,067,267**	**673,313**	**14,740,580**	**14,062,686**	**673,313**	**14,735,999**
Additions	2,056,837	-	2,056,837	2,056,049	-	**2,056,049**
Charge for the year (Note 33)	(2,849,105)	-	(2,849,105)	(2,845,311)	-	**(2,845,311)**
Carrying amount at 31 December 2016	**13,274,999**	**673,313**	**13,948,312**	**13,273,424**	**673,313**	**13,946,737**

20 Premises and Equipment

/Group/

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	PPE reserve	Leasehold improvement	Construction in progress	Total premises and equipment
Cost at 1 January 2015	60,416,811	2,657,900	25,725,843	4,694,070	5,338,673	1,658,143	12,307,793	112,799,233
Accumulated depreciation	(1,258,833)	(1,033,927)	(16,311,338)	(1,709,961)	-	(485,265)	-	(20,799,324)
Carrying amount at 1 January 2015	**59,157,978**	**1,623,973**	**9,414,505**	**2,984,109**	**5,338,673**	**1,172,878**	**12,307,793**	**91,999,909**
Additions	85,797,445	320,741	1,124,274	1,628,814	473,501	389,740	4,278,944	94,013,459
Reclassification	2,393,109	-	-	-	-	-	(2,393,109)	-
Transfers	785,497	-	4,324,855	1,948	(4,326,803)	(785,497)	-	-
Disposals	(214,979)	(105,094)	(106,155)	(27,311)	-	-	-	(453,539)
Write-offs	-	-	(274,221)	(41,289)	-	-	-	(315,510)
Charge for the year (Note 33)	(2,618,550)	(289,501)	(5,660,675)	(331,220)	-	(353,045)	-	(9,252,991)
Disposals	118,230	104,348	104,958	14,424	-	-	-	341,960
Write-offs	-	-	269,361	30,997	-	-	-	300,358
Carrying amount at 31 December 2015	**145,418,730**	**1,654,467**	**9,196,902**	**4,260,472**	**1,485,371**	**424,076**	**14,193,628**	**176,633,646**
Cost at 1 January 2016	149,177,883	2,873,547	30,794,596	6,256,232	1,485,371	1,262,386	14,193,628	206,043,643
Accumulated depreciation	(3,759,153)	(1,219,080)	(21,597,694)	(1,995,760)	-	(838,310)	-	(29,409,997)
Carrying amount at 1 January 2016	**145,418,730**	**1,654,467**	**9,196,902**	**4,260,472**	**1,485,371**	**424,076**	**14,193,628**	**176,633,646**
Additions	-	-	945,915	87,404	361,742	349,513	3,033,491	4,778,065
Revaluation	-	-	1,158,435	(31,057)	(1,127,378)	-	-	-
Transfers	-	(260,205)	(79,171)	(11,974)	-	-	(3,400,000)	(3,751,350)
Disposals	-	-	(190,321)	(63,632)	-	-	-	(253,953)
Write-offs	(3,902,554)	(273,694)	(4,831,893)	(340,042)	-	(317,188)	-	(9,665,371)
Charge for the year (Note 33)	-	-	(1,325)	1,325	-	-	-	-
Transfers	-	211,589	79,171	7,379	-	-	-	298,139
Disposals	-	-	189,032	55,450	-	-	-	244,482
Write-offs	1,928,215	-	-	-	-	-	-	1,928,215
Carrying amount at 31 December 2016	**144,254,673**	**1,332,157**	**6,466,745**	**3,965,325**	**719,735**	**456,401**	**13,827,119**	**171,022,155**

/Bank/

In thousands of Mongolian Tugriks	**Premises**	**Motor vehicles**	**Office equipment and computers**	**Furniture**	**PPE reserve**	**Leasehold improvement**	**Construction in progress**	**Total premises and equipment**
Cost at 1 January 2015	60,416,811	2,652,983	25,708,529	4,679,524	5,338,673	1,658,144	12,307,793	112,762,457
Accumulated depreciation	(1,258,833)	(1,029,893)	(16,295,467)	(1,705,882)	-	(485,266)	-	(20,775,341)
Carrying amount at 1 January 2015	**59,157,978**	**1,623,090**	**9,413,062**	**2,973,642**	**5,338,673**	**1,172,878**	**12,307,793**	**91,987,116**
Additions	85,797,445	317,200	1,123,561	1,615,664	473,501	389,740	4,278,944	93,996,055
Reclassification	2,393,109	-	-	-	-	-	(2,393,109)	-
Transfers	785,497	-	4,324,855	1,948	(4,326,803)	(785,497)	-	-
Disposals	(214,979)	(100,177)	(106,155)	(13,166)	-	-	-	(434,477)
Write-offs	-	-	(274,221)	(41,289)	-	-	-	(315,510)
Charge for the year (Note 33)	(2,618,550)	(288,294)	(5,659,232)	(329,457)	-	(353,045)	-	(9,248,578)
Disposals	118,230	100,177	104,958	10,417	-	-	-	333,782
Write-offs	-	-	269,361	30,997	-	-	-	300,358
Carrying amount at 31 December 2015	**145,418,730**	**1,651,996**	**9,196,189**	**4,248,756**	**1,485,371**	**424,076**	**14,193,628**	**176,618,746**
Cost at 1 January 2016	149,177,883	2,870,006	30,776,569	6,242,681	1,485,371	1,262,387	14,193,628	206,008,525
Accumulated depreciation	(3,759,153)	(1,218,010)	(21,580,380)	(1,993,925)	-	(838,311)	-	(29,389,779)
Carrying amount at 1 January 2016	**145,418,730**	**1,651,996**	**9,196,189**	**4,248,756**	**1,485,371**	**424,076**	**14,193,628**	**176,618,746**
Additions	-	-	945,592	85,712	361,742	349,513	3,033,491	4,776,050
Transfers	-	-	1,158,435	(31,057)	(1,127,378)	-	-	-
Disposals	-	(260,205)	(79,171)	(11,974)		-	(3,400,000)	(3,751,350)
Write-offs	-	-	(190,321)	(63,632)		-	-	(253,953)
Charge for the year	(3,902,554)	(272,514)	(4,830,776)	(338,937)		(317,188)	-	(9,661,969)
Transfers	-		(1,325)	1,325				-
Disposals	-	211,589	79,171	7,379		-	-	298,139
Write-offs	-	-	189,032	55,450		-	-	244,482
Reversal of accumulated depreciation	1,928,215	-				-	-	1,928,215
Revaluation	810,282	-				-	-	810,282
Carrying amount at 31 December 2016	**144,254,673**	**1,330,866**	**6,466,826**	**3,953,022**	**719,735**	**456,401**	**13,827,119**	**171,008,642**

20 Premises and Equipment (continued)

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

The Bank's internal valuation specialists have considered changes in fair value of premises as of 31 December 2016 and recognised increase in fair value of premises of MNT 2,738,497 thousand. For management's judgements refer to Note 3.

At 31 December 2016 the carrying amount of premises would have been MNT 134,040,076 thousand (2015: MNT 137,574,591 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 2016	31 December 2015
Premises at revalued amount in the statement of financial position	144,254,673	145,418,730
Revaluation reserve presented in equity	(9,644,868)	(7,476,100)
Revaluation reserve - transfer to retained earnings	(569,729)	(368,039)
Premises at cost less accumulated depreciation	**134,040,076**	**137,574,591**

21 Repossessed Collaterals

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Financial assets at fair value	44,660,926	50,133,051
Non-financial assets at cost	4,249,744	51,717,714
Less: Impairment provision	(4,101,061)	(1,755,861)
Total repossessed collaterals	**44,809,609**	**100,094,904**

Repossessed collateral represents real estate assets and financial assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and investment properties, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value less cost to sell when acquired.

In 2016, the Group reclassified MNT 50,082,284 thousand and MNT 17,444,424 thousand of assets from repossessed collateral to Investment properties and Non-Current Assets Classified as Held for Sale respectively, following the management's intentions in relation to those assets. Refer to Notes 16 and 22.

Financial assets at fair value as of 31 December 2016 represent shares in Burkhan Del Alt LLC which the Bank has acquired in the process of settlement of overdue loans. Repossessed collaterals are recognised as investments available for sale. Refer to Note 42.

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

Movements in the provision for repossessed non-financial collaterals during 2016 and 2015 are as follows:

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Provision for repossessed collaterals at 1 January	**1,755,861**	**880,992**
Provision for impairment during the year	2,345,200	950,575
Amounts written off during the year as uncollectible	-	(75,706)
Provision for repossessed collaterals at 31 December	**4,101,061**	**1,755,861**

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

22 Non-Current Assets Classified as Held for Sale

Non-current assets classified as held for sale includes premises, which were previously classified as repossessed collateral (foreclosed assets), acquired by the Group in settlement of overdue loans. Management approved a plan to sell non-current assets on 7 December 2016. The Group is actively marketing these assets and expects the sale to complete within 12 months. Further accounting policies of non-current assets classified as held for sale is disclosed in Note 4.13.

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

23 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Short-term placements of other banks	103,933,499	82,002,849
Long-term placement of other banks	17,968,518	7,997,821
Total due to other banks	**121,902,017**	**90,000,670**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed with Mongolian and foreign banks. The increase in amounts due to other banks mainly relates to a short-term placement of MNT 37,367,591 thousand from a local bank.

At 31 December 2016 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 3.0% p.a. to 14.5% p.a. (2015: from 1.2% p.a. to 7.5% p.a.) and original maturities ranging from 5 to 90 days (2015: from 7 to 91 days).

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

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

24 Customer Accounts

In thousands of Mongolian Tugriks	Group 31 December 2016	Group 31 December 2015	Bank 31 December 2016	Bank 31 December 2015
State and public organizations	**185,378,977**	**168,050,748**	**185,378,977**	**168,050,748**
- Current/settlement accounts	109,749,345	67,034,331	109,749,345	67,034,331
- Demand deposits	58,278,383	42,350,036	58,278,383	42,350,036
- Term deposits	17,351,249	58,666,381	17,351,249	58,666,381
Legal entities	**733,633,909**	**523,711,238**	**733,253,306**	**523,711,258**
- Current/settlement accounts	531,452,603	354,736,333	531,072,000	354,736,353
- Demand deposits	60,294,309	25,944,869	60,294,309	25,944,869
- Term deposits	141,886,997	143,030,036	141,886,997	143,030,036
Individuals	**1,852,067,325**	**1,366,537,181**	**1,851,900,020**	**1,366,508,836**
- Current/demand accounts	114,728,969	77,949,726	114,561,664	77,921,381
- Demand deposits	407,064,810	290,801,245	407,064,810	290,801,245
- Term deposits	1,330,273,546	997,786,210	1,330,273,546	997,786,210
Other	**32,795,258**	**21,529,752**	**32,795,257**	**21,529,752**
- Current/demand accounts	19,870,884	10,500,043	19,870,884	10,500,043
- Demand deposits	920,243	1,145,985	920,243	1,145,985
- Term deposits	12,004,131	9,883,724	12,004,130	9,883,724
Total customer accounts	**2,803,875,469**	**2,079,828,919**	**2,803,327,560**	**2,079,800,594**

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 2016 the aggregate amount of the top 30 biggest customers is MNT 724,652,186 thousand (31 December 2015: MNT 482,149,570 thousand) or 26% of total customer accounts (31 December 2015: 23%).

The amount due to a subsidiary amounting to MNT 1,231,005 thousand (2015: MNT 34,977 thousand) was eliminated in the Group's financial statements.

At 31 December 2016, included in customer accounts are deposits of MNT 7,391,954 thousand (2015: MNT 10,041,027 thousand) held as collateral for irrevocable commitments under bank guarantee. Refer Note 39.

25 Other Borrowed Funds

In thousands of Mongolian Tugriks	**31 December 2016**	**31 December 2015**
(a) Borrowed funds under project		
Borrowed funds under Project /MNT/	593,876,110	475,890,342
Borrowed funds under Project /USD/	921,098	1,706,171
Borrowed funds under Project /EUR/	1,043,461	1,158,211
Total borrowed funds under projects	**595,840,669**	**478,754,724**
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	497,834,077	199,659,254
Trade finance from foreign banks and financial institutions /USD/	89,470,981	88,668,903
Trade finance from foreign banks and financial institutions /EUR/	4,208,098	299,685
Trade finance from foreign banks and financial institutions /CNY/	5,671,627	2,458,416
Trade finance from foreign banks and financial institutions /GBP/	143,302	-
Trade finance from foreign banks and financial institutions /JPY/	2,701,243	-
Total borrowings from foreign banks and financial institutions	**600,029,328**	**291,086,258**
(c) Borrowings from Bank of Mongolia		
Borrowings from Bank of Mongolia /MNT/	-	245,093,973
Total borrowings from Bank of Mongolia	**-**	**245,093,973**
TOTAL (a+b+c)	**1,195,869,997**	**1,014,934,955**

(a) Borrowed funds under project

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Government price stabilization program		
Housing mortgage program	232,770,498	102,504,132
Project to increase number of warehouses and to support development of intensive livestock	5,338,587	18,502,700
Project loan of KFB bank	4,580,317	5,557,120
Other borrowing under project	3,111,900	2,747,900
Project on housing prices stabilization	-	3,567,865
Program to support construction industry	-	1,503,288
Projects financed by Development Bank of Mongolia		
Project on renewing the cashmere technology	98,354,244	102,264,240
Project on producing woollen goods	48,022,000	48,022,000
Project on supporting milk and dairy products manufacturing	41,133,334	41,204,480
Project on constructing greenhouse farm	25,926,550	26,360,050
Project 888 to support export and substitute import	23,372,257	33,478,823
Funding for Asia-Europe meeting	21,422,706	-
MNCCI leather processing project	21,274,202	23,697,726
Other borrowing under project	7,839,890	-
Agriculture 2016 program	4,576,397	-
Project on meat production	4,506,575	-
Project on supporting the sewing industry	3,610,600	3,610,600
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	12,001,016	21,458,237
Borrowings under SME development and environment protection	456,956	926,167
Private sector development project loan 2, MNT, USD	126,106	628,742
Other government projects		
Borrowings under SME development and environment protection	18,687,810	21,182,449
Borrowings under SME industry support fund	14,521,244	15,213,147
Borrowings under project to support finished wool and cashmere producers	1,136,070	4,333,089
Borrowings under Agriculture and Rural Development Project	1,090,321	793,915
Student development program	1,000,000	-
Borrowings under Housing finance Project	485,084	693,885
Other borrowing under project	460,270	451,027
Borrowings under 40000 Housing Unit Development program	35,735	52,114
Project on meat reserve	-	1,028
Total borrowed funds under projects	**595,840,669**	**478,754,724**

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

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

(a) Borrowed funds under projects

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

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

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

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

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

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

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

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.

The bank has loan covenant on borrowing due from ADB. There were no breaches in covenants as of 31 December 2016 and 31 December 2015.

25 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2016 in original currency	Principle balance as of 31 December 2016 in MNT
Government price stabilization program	Bank of Mongolia	Housing mortgage program	MNT	06/14/2013	12/15/2016	232,680,115	232,680,115
	Bank of Mongolia	Project to support development of intensive livestock	MNT	12/19/2013	12/19/2017	5,334,458	5,334,458
	Bank of Mongolia	Project loan of KFB bank	MNT	05/16/2013	06/25/2021	3,530,325	3,530,325
	Bank of Mongolia	Other borrowing under project (ADB Employment Generation Loan)	MNT	05/07/2001	05/07/2018	3,111,900	3,111,900
	Bank of Mongolia	Project loan of KFB bank	EUR	12/11/2012	12/25/2020	400	1,043,186
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Project on renewing the cashmere technology	MNT	08/12/2013	12/01/2017	98,354,244	98,354,244
	Development Bank of Mongolia	Project on producing woollen goods	MNT	08/12/2013	12/01/2017	48,022,000	48,022,000
	Development Bank of Mongolia	Project on supporting milk and dairy products manufacturing /DBM/	MNT	08/12/2013	12/01/2017	38,447,864	38,447,864
	Development Bank of Mongolia	Project on constructing greenhouse farm	MNT	08/12/2013	12/01/2017	25,926,550	25,926,550
	Development Bank of Mongolia	Funding for Asia-Europe meeting	MNT	03/11/2016	12/21/2018	21,412,000	21,412,000
	Development Bank of Mongolia	MNCCI leather processing project	MNT	08/22/2014	07/27/2021	21,259,438	21,259,438
	Development Bank of Mongolia	Project 888 to support export and substitute import (less than 2 bln)	MNT	08/28/2014	01/29/2020	19,134,287	19,134,287
	Development Bank of Mongolia	Projects to support export and substitute import /up to 300 billion/	MNT	09/28/2015	11/27/2020	5,834,333	5,834,333
	Development Bank of Mongolia	Agriculture 2016 program	MNT	04/14/2016	06/29/2018	4,571,825	4,571,825
	Development Bank of Mongolia	Project to support meat production	MNT	03/25/2016	02/28/2020	4,500,000	4,500,000
	Development Bank of Mongolia	Project 888 to support export and substitute import (more than 2 bln)	MNT	09/01/2014	12/30/2019	4,225,931	4,225,931
	Development Bank of Mongolia	Project on supporting the sewing industry	MNT	08/12/2013	12/01/2017	3,610,600	3,610,600
	Development Bank of Mongolia	Project to support cashmere industry	MNT	06/15/2015	12/15/2017	2,000,000	2,000,000

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2016 in original currency	Principle balance as of 31 December 2016 in MNT
Joint projects of Mongolian government and Japan International Cooperation Agency	JICA	Borrowings under SME industry support fund	MNT	06/12/2009	12/31/2017	11,964,477	11,964,477
	JICA	Borrowings under SME industry support fund	USD	09/29/2006	12/31/2019	183	456,408
	World Bank	Private sector development project loan-2, MNT	MNT	10/18/2007	12/20/2017	112,000	112,000
Other government projects Government	Government	Borrowings under SME industry support fund	MNT	09/29/2006	08/01/2026	18,641,784	18,641,784
	Government	Borrowings under SME industry support fund	MNT	06/12/2015	03/05/2019	11,303,421	11,303,421
	Government	Borrowings under SME industry support fund	MNT	07/10/2012	12/31/2017	3,190,975	3,190,975
	Government	Borrowings under project for support to finished wool and cashmere producers	MNT	01/04/2012	12/04/2018	1,134,167	1,134,167
	Government	Borrowings under Agriculture and Rural Development Project	MNT	06/13/2011	12/13/2019	1,090,321	1,090,321
	Government	Student development program	MNT	11/30/2016	11/30/2026	1,000,000	1,000,000
	Government	Other borrowing under project (Training Loan from Foreign bank)	USD	11/12/2009	05/01/2027	183	454,453
	Government	ADB Mortgage loan fund	MNT	11/01/2008	11/01/2017	417,213	417,213
	Government	Borrowings under 40000 Housing Unit Development program	MNT	02/27/2008	03/15/2019	31,038	31,038

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank of MNT 497,834,077 thousand represents loans obtained from foreign banks in total amount of USD 200,000 thousands on 21 December 2015 with maturity of 18 months and on 15 July 2016 with maturity of 24 months. The borrowings are collateralized by the Bank's current account at these banks (refer to Note 11).

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2016 the Bank utilised MNT 102,195,250 thousand (31 December 2015: MNT 91,427,003 thousand) of related credit lines and issued loans for the same amount. Funding is provided by international banks and financial institutions for the purpose of import financing of transactions of customers. The term of such funding is up to 3 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer. The increase in trade finance relates to ordinary course of business activities as well as new funding in JPY and GBP from foreign banks.

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

None of the borrowings from foreign banks and financial institutions have financial or other covenants.

(c) Borrowing from Bank of Mongolia

Borrowing from Bank of Mongolia as of 31 December 2015 represented a loan from obtained on 25 December 2015 in amount of MNT 245 billion at interest rate of 14% p.a. and maturity of less than 3 months. The borrowing has been fully repaid by the Bank as of 31 December 2016 in line with its maturity.

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

26 REPO Arrangements

As of 31 December 2016, sale and repurchase agreements relate to placements from local banks and financial institutions, bearing interest rate ranging from 7.5% p.a. to 17.0% p.a. (2015: from 13.0% p.a. to 15.0% p.a.) respectively, with original maturities ranging from 7 to 941 days (2015: from 4 to 7 days). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 13 and Note 39.

27 Other Liabilities

Other liabilities comprise the following:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Other financial liabilities	**31,383,555**	**8,813,244**	**31,353,878**	**8,787,403**
Liabilities for settlements of transactions	18,336,020	3,363,447	18,336,020	3,363,447
Liabilities for loans sold to MIK with recourse	5,539,233	-	5,539,233	-
Account payable	1,315,093	585,070	1,315,093	580,828
Other	6,193,209	4,864,727	6,163,532	4,843,128
Other non-financial liabilities	**2,710,213**	**3,568,111**	**2,701,720**	**3,568,111**
Payables to employees	1,527,632	1,957,680	1,527,450	1,957,680
Tax payable other than on income	1,182,581	1,610,431	1,174,270	1,610,431
Total other liabilities	**34,093,768**	**12,381,355**	**34,055,598**	**12,355,514**

Liabilities for settlement of transactions relate to amounts transferred to other banks in early January 2017, at customers' requests made in late December 2016. As a result, related amounts were transferred from customers' accounts to the accounts used for settlement of transactions within 'Other financial liabilities' as of 31 December 2016 and further cleared through inter-banking settlement in early January 2017.

Furthermore, The Bank participated in two tranches of monetization transactions with MIK in 2016 for selling of mortgage loans with recourse. The Bank sold MNT 2,218,966 thousand and MNT 3,943,479 thousand of mortgage loans to MIK during 2016, for which the Bank received funding bearing interest rate at 15% p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition and a financial liability is recognised for the consideration received from MIK. The balance in other liability as of 31 December 2016 has decreased by the repayments of related loans.

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

28 Subordinated Debt

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Subordinated loans from Golomt Financial Group	87,733,803	70,060,229
Total	**87,733,803**	**70,060,229**

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

Subordinated loans as of the year ended 31 December 2016:

Lender	Agreement amount (USD) 12/31/2016	Outstanding amount (USD) 12/31/2015	Interest rate 12/31/2016	Interest rate 12/31/2015	Maturity date
Golomt Financial Group (I)	10,000,000	10,000,000	8.0%	6.0%	31 December 2023
Golomt Financial Group (II)	25,000,000	25,000,000	8.0%	5.1%	08 December 2024
Total subordinated debt	**35,000,000**	**35,000,000**			

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

The principal terms are given below:

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

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

Subordinated loan from Golomt Financial Group (II)

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

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

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

28 Subordinated Debt (continued)

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.

None of the subordinated debt agreements had financial or other covenants as of 31 December 2016 and 31 December 2015. Information on related party balances is disclosed in Note 43.

29 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
New shares issued	**150,500**	**150,500**	**707,650**	**-**	**858,150**
Transfer from share based payment reserve	-	-	1,176,486	-	**1,176,486**
At 31 December 2015	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**
At 31 December 2016	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**

The nominal registered amount of the Bank's issued share capital is MNT 26,367,593 thousand (2015: MNT 26,367,593 thousand).

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

Ordinary shares

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

In 2015 150,500 fully paid shares of the Bank of MNT 1,000 each were issued through exercise of employee share options at the exercise price of MNT 5,702 per share. The share premium of MNT 707,650 thousand arising from the issuance of these ordinary shares has been included in the share premium.

The shareholders of the Bank as of 31 December 2016 and 31 December 2015 and the percentages of ownership are as follows:

Shareholder	2016	2015
	Ownership (%)	**Ownership (%)**
Golomt Financial Group Co.,Ltd	83.76%	83.76%
Swiss-Mo Investment A.G	9.98%	9.98%
Trafigura Beheer B.V	4.93%	4.93%
ESOP	1.33%	1.33%
Total	**100%**	**100%**

Preferred shares

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

Under this agreement, total investment to preferred shares of the Bank amounts to USD 15 million which should be made in two instalments (USD 10 million due by 25 December 2013 and USD 5 million due by 25 December 2014). As of 31 December 2016, total preferred shares amount to USD 15,000,000, which is equivalent to MNT 25,778,900 thousand divided into 25,778,900 preferred shares.

30 Interest Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	**2016**	**2015**	**2016**	**2015**
Interest income				
Loans and advances to customers	261,336,134	285,607,728	261,336,134	285,607,728
Investments held to maturity	36,554,231	20,363,290	36,346,553	20,214,647
Short-term investment securities	23,621,571	-	23,621,571	-
Cash and balances with central bank	9,387,860	7,892,101	9,387,860	7,892,101
Due from other banks	867,077	464,926	867,077	464,904
Reverse repurchase agreements	340,315	650,174	340,315	650,174
Total interest income	**332,107,188**	**314,978,219**	**331,899,510**	**314,829,554**
Interest expense				
Customer accounts	(193,233,346)	(162,978,505)	(193,237,793)	(162,980,356)
Other borrowed funds	(38,531,051)	(36,988,454)	(38,531,051)	(36,988,454)
Subordinated loans	(6,085,952)	(3,547,250)	(6,085,952)	(3,547,250)
Due to other banks	(5,148,134)	(6,997,540)	(5,148,134)	(6,997,540)
Repurchase agreements	(3,412,605)	(2,781,742)	(3,412,605)	(2,781,742)
Others	-	(70)	-	-
Total interest expense	**(246,411,088)**	**(213,293,561)**	**(246,415,535)**	**(213,295,342)**
Net interest income	**85,696,100**	**101,684,658**	**85,483,975**	**101,534,212**

Interest income from cash and balances with central bank includes MNT 9,149,482 thousand (2015: MNT 7,323,473 thousand) 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 2016.

Interest income includes approximately MNT 10.1 billion (2015: MNT 16.2 billion) of interest income, recognised on impaired loans to customers. Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2016 and 2015 in accordance with IFRS requirements.

31 Fee and Commission Income and Expense

	Group		Bank	
In thousands of Mongolian Tugriks	2016	2015	2016	2015
Fee and commission income				
Commissions on operations with plastic cards	13,014,091	9,658,642	13,014,092	9,658,642
Remittance and other service fees	7,192,124	4,700,063	7,135,876	4,690,939
Commissions on documentary business and guarantees	3,494,876	3,160,316	3,494,876	3,160,316
Account service fee and commissions	3,370,834	3,278,742	3,367,956	3,277,639
Brokerage and other service fee	1,369,102	641,026	969,566	256,489
Total fee and commission income	**28,441,027**	**21,438,789**	**27,982,366**	**21,044,025**
Fee and commission expense				
Card transaction expense	(5,753,370)	(4,599,836)	(5,753,370)	(4,599,836)
Bank service expense	(1,686,488)	(2,198,496)	(1,596,299)	(2,135,101)
Online transaction expense	(259,157)	(151,074)	(259,157)	(151,074)
Total fee and commission expense	**(7,699,015)**	**(6,949,406)**	**(7,608,826)**	**(6,886,011)**
Net fee and commission income	**20,742,012**	**14,489,383**	**20,373,540**	**14,158,014**

32 Other Operating Income

	Group		Bank	
In thousands of Mongolian Tugriks	2016	2015	2016	2015
Income from repayment of loans which were written off	943,167	4,090,143	943,167	4,090,143
Gain or loss on disposal of premises and equipment	42,174	29,822	42,174	29,822
Other	411,695	258,113	406,382	257,477
Total other operating income	**1,397,036**	**4,378,078**	**1,391,723**	**4,377,442**

33 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Group 2016	Group 2015	Bank 2016	Bank 2015
Staff costs	30,908,674	29,408,654	30,747,704	29,271,218
Administrative expenses	9,659,404	7,862,943	9,615,557	7,820,999
Depreciation of premises and equipment	9,669,168	9,252,991	9,661,972	9,248,578
Professional fees	7,560,235	7,154,618	7,555,529	7,136,274
Rental of premises	5,786,325	7,265,572	5,733,987	7,214,344
Amortization of software and intangible assets	2,845,311	4,503,962	2,845,311	4,499,708
Advertising and marketing services	2,133,614	2,371,779	2,127,745	2,294,737
Loan collection expenses	1,790,959	704,649	1,790,959	704,649
Taxes (other than income tax)	1,408,834	855,964	1,408,834	855,964
Transportation	895,116	1,129,638	894,489	1,129,557
Travelling expenses	742,586	663,417	721,410	645,151
Utilities	614,482	563,049	600,641	554,216
Entertainment	478,315	721,756	478,315	721,756
Voluntary and mandatory insurance	466,151	919,361	466,151	918,591
Donations	164,600	44,739	164,600	44,739
Property, plant and equipment written-off	17,209	15,152	17,209	15,152
Other	2,427,760	2,354,613	2,420,880	2,286,397
Total administrative and other operating expenses	**77,568,743**	**75,792,857**	**77,251,293**	**75,362,030**

In thousands of Mongolian Tugriks	Group 2016	Group 2015	Bank 2016	Bank 2015
Staff costs consist of:				
Salaries, wages and bonus	26,834,382	25,336,368	26,691,584	25,216,756
Contribution to social and health fund	2,880,108	2,693,948	2,864,401	2,680,780
Staff benefits	620,815	571,186	620,815	571,186
Staff training	419,222	417,756	416,757	414,118
Pension fund	154,147	389,396	154,147	388,378
Total staff costs	**30,908,674**	**29,408,654**	**30,747,704**	**29,271,218**

34 Income Taxes

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

In thousands of Mongolian Tugriks	Group 2016	Group 2015	Bank 2016	Bank 2015
Current income tax charge	-	8,073,023	-	8,072,835
Deferred income tax charge/(credit)	7,471,460	(1,326,905)	7,472,658	(1,331,256)
Income tax expense for the year	**7,471,460**	**6,746,118**	**7,472,658**	**6,741,579**

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 (2015: MNT 3 billion) of taxable income, and 25% (2015: 25%) on the excess of taxable income over MNT 3 billion (2015: MNT 3 billion) in accordance with Mongolian tax legislation.

34 Income Taxes (continued)

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

In thousands of Mongolian Tugriks	Group 2016	Group 2015	Bank 2016	Bank 2015
Profit before tax	**13,059,208**	**32,788,569**	**12,746,219**	**32,726,389**
Theoretical tax charge at statutory rate (2016: 25%; 2015: 25%)	3,264,802	8,197,142	3,186,555	8,181,597
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Effect of income subject to lower rate	(450,000)	(450,000)	(450,000)	(450,000)
- Income which is exempt from taxation	(269,435)	-	(268,373)	-
- Non-deductible expenses	2,612,450	980,143	2,610,943	980,143
- Income on government securities taxed at different rates	(5,408,961)	(1,970,161)	(5,359,677)	(1,970,161)
- Unrecognised tax loss carry forwards	7,753,210	-	7,753,210	-
- Other	(30,606)	(11,005)	-	-
Income tax expense for the year	**7,471,460**	**6,746,119**	**7,472,658**	**6,741,579**

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

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

The tax effect of the movements in these temporary differences in 2015 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	1 January 2015	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2015
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	(3,941,902)	(1,201,610)	-	(5,143,512)
Financial assets at fair value through profit and loss (changes in fair value of shares)	-	1,036,375	-	1,036,375
Fair value changes of financial instruments available for sale	(161,673)	-	(1,311,457)	(1,473,130)
Fair value changes of derivative financial instruments	(1,521,619)	(8,530,135)	-	(10,051,754)
Prepaid income – loan origination fee	1,664,373	(618,751)	-	1,045,622
Loan and advances to customers - difference between BoM and IFRS provision	808,017	10,687,318	-	11,495,335
Others	60,011	(41,941)	-	18,070
Net deferred tax liability	**(3,092,793)**	**1,331,256**	**(1,311,457)**	**(3,072,994)**

35 Other Comprehensive Income Recognised in Each Component of Equity

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

In thousands of Mongolian Tugriks	2016	2015
Changes in:		
- fair value of available for sale investment securities, including repossessed financial collateral	534,662	6,539,214
- fair value of premises and equipment	2,738,497	-
Income tax recorded directly in other comprehensive income	(295,339)	(1,311,457)
Other comprehensive income	**2,977,820**	**5,227,757**

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

36 Dividends

	2016		2015	
In thousands of Mongolian Tugriks	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	-	-	-	1,488,679
Dividends paid during the year	-	-	-	1,488,679
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year	-	-	-	5%

All dividends are declared and paid in Mongolian Tugriks. As the above balances represent the Bank's and Group's balances, the additional disclosure for Group is not required.

37 Financial Risk Management

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

The purpose of creating a Risk Appetite Framework (RAF) and a Risk Appetite Statement (RAS) is to 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 defence" model in risk governance, where management is the first line of defence, the Risk management committee and the Chief risk officer are the second line of defence and Internal audit is the third line of defence.

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

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

Credit risk

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

Default risk

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

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

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

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

Market risk

Market risk is defined as the risk of incurring losses resulting from adverse changes in risk factors such as interest rate, foreign exchange rates, fixed income, equity and other financial instrument prices (including derivatives), and general market volatility. The Bank establishes limits for the key metrics of the market risk exposure specifically in respect of:

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

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

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

Currency risk

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

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

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

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

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

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.

37 Financial Risk Management (continued)

Currency risk (continued)

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

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	62,526,270	181,803,360	37,552,013	34,919,549	316,801,192
Mandatory cash balances with the Bank of Mongolia	166,053,150	149,579,945	-	-	315,633,095
Financial assets at fair value through profit or loss	358,339,356	37,038,100	-	45,138	395,422,594
Reverse sale and repurchase agreement	9,995,766	-	-	-	9,995,766
Due from other banks	75,696	705,512,457	12,494,372	74,072,030	792,154,555
Loans and advances to customers	1,710,846,910	308,724,550	4,645,178	10,643,117	2,034,859,755
Short-term investment securities	41,979,911	-	-	-	41,979,911
Investment securities available for sale	119,085,719	-	51,595	7,028,614	126,165,928
Investment securities held to maturity	120,274,349	-	-	-	120,274,349
Repossessed financial asset	44,660,926	-	-	-	44,660,926
Non-Current Assets Classified as Held for Sale	5,049,835	-	-	-	5,049,835
Other financial assets	9,909,931	1,602,244	91,411	579,137	12,182,723
Total monetary financial assets	**2,648,797,819**	**1,384,260,656**	**54,834,569**	**127,287,585**	**4,215,180,629**
Monetary financial liabilities					
Due to other banks	7,928,360	78,119,553	17,018,435	18,835,669	121,902,017
Customer accounts					
-Current Accounts	371,150,294	329,197,842	10,823,065	64,082,691	775,253,892
-Demand Savings	298,843,585	200,098,382	8,668,624	18,947,154	526,557,745
-Time Savings	804,196,487	677,715,125	12,243,995	7,360,316	1,501,515,923
REPO arrangements	37,408,551	-	-	-	37,408,551
Other borrowed funds	593,876,110	588,226,156	5,251,559	8,516,172	1,195,869,997
Subordinated debt	-	87,733,803	-	-	87,733,803
Other financial liabilities	23,542,684	6,322,557	837,439	651,198	31,353,878
Total monetary financial liabilities	**2,136,946,071**	**1,967,413,418**	**54,843,117**	**118,393,200**	**4,277,595,806**
Derivatives	**(491,784,150)**	**619,892,970**	**-**	**-**	**128,108,820**
Net balance sheet position	**20,067,598**	**36,740,208**	**(8,548)**	**8,894,385**	**65,693,643**

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2015. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	106,306,098	-	26,657,454	25,160,735	**158,124,287**
Mandatory cash balances with Bank of Mongolia	187,241,047	73,498,365	-	-	**260,739,412**
Financial assets at fair value through profit or loss	-	4,232,791	-	1,177,247	**5,410,038**
Due from other banks	93,219	310,979,307	9,542,022	28,619,457	**349,234,005**
Loans and advances to customers	1,577,877,623	432,862,829	1,271,601	1,598,734	**2,013,610,787**
Short-term investment securities	-	-	-	-	**-**
Investment securities available for sale	62,404,024	-	43,217	5,640,809	**68,088,050**
Investment securities held to maturity	592,831,917	-	-	-	**592,831,917**
Repossessed financial assets	50,133,051	-	-	-	**50,133,051**
Other financial assets	8,135,706	452,264	48,006	23,517	**8,659,493**
Total monetary financial assets	**2,585,022,685**	**822,025,556**	**37,562,300**	**62,220,499**	**3,506,831,040**
Monetary financial liabilities					
Due to other banks	22,192,407	48,010,921	14,843,348	4,953,994	**90,000,670**
Customer accounts	-	-	-	-	
-Current Accounts	270,529,387	209,649,818	5,357,514	24,655,389	**510,192,108**
-Demand Savings	252,120,544	84,983,026	6,947,688	16,190,877	**360,242,135**
-Time Savings	729,860,747	464,189,226	9,188,387	6,127,991	**1,209,366,351**
REPO arrangements	174,280,920	-	-	-	**174,280,920**
Other borrowed funds	720,984,315	290,034,328	1,457,896	2,458,416	**1,014,934,955**
Subordinated debt	-	70,060,229	-	-	**70,060,229**
Other financial liabilities	6,782,059	1,453,365	172,298	379,681	**8,787,403**
Total monetary financial liabilities	**2,176,750,379**	**1,168,380,913**	**37,967,131**	**54,766,348**	**3,437,864,771**
Derivatives	**(282,877,432)**	**323,084,446**	**-**	**-**	**40,207,014**
Net balance sheet position	**125,394,874**	**(23,270,911)**	**(404,831)**	**7,454,151**	**109,173,283**

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

	31 December 2016	31 December 2015
US Dollar strengthening by 25% (2015 strengthening by 14%)	9,185,052	(3,257,928)
US Dollar weakening by 25% (2015 weakening by 14%)	(9,185,052)	3,257,928
Euro strengthening by 20% (2015 strengthening by 5%)	(1,710)	(20,242)
Euro weakening by 20% (2015 weakening by 5%)	1,710	20,242
CNY Chinese Yuan strengthening by 15% (2015 strengthening by 11%)	(11,824,800)	(155,818)
CNY Chinese Yuan weakening by 15% (2015 weakening by 11%)	11,824,800	155,818
HKD Hong Kong Dollar strengthening by 25% (2015 strengthening by 14%)	1,392,926	986,690
HKD Hong Kong Dollar weakening by 25% (2015 weakening by 14%)	(1,392,926)	(986,690)
Other strengthening by 25% (2015 strengthening by 1%)	20,538,671	18,229
Other weakening by 25% (2015 weakening by 1%)	(20,538,671)	(18,229)

Interest rate risk

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

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

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

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

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2016						
Financial assets	1,951,575,732	862,695,768	426,504,389	849,661,147	301,765,214	**4,392,202,250**
Financial liabilities	1,875,449,276	1,038,740,100	619,671,791	740,479,600	3,255,039	**4,277,595,806**
Net interest sensitivity gap at 31 December 2016	**76,126,456**	**(176,044,332)**	**(193,167,402)**	**109,181,547**	**298,510,175**	**114,606,444**
At 31 December 2015						
Financial assets	1,715,944,979	496,377,515	517,199,743	601,083,838	216,431,979	**3,547,038,054**
Financial liabilities	1,487,035,647	728,308,538	516,593,364	683,028,095	22,899,127	**3,437,864,771**
Net interest sensitivity gap at 31 December 2015	**228,909,332**	**(231,931,023)**	**606,379**	**(81,944,257)**	**193,532,852**	**109,173,283**

The Bank is exposed to interest rate risk due to net interest rate sensitivity gap due to significantly higher interest bearing assets compared to interest bearing liabilities. If interest rates at 31 December 2016 had been 10% higher/(lower) with all other variables held constant, the financial result for 2016 would be have been MNT 11,460,645 thousand higher/(lower) (2015: MNT 10,917,328 thousand higher/(lower)), mainly as a result of high net interest sensitivity gap and changes interest rates during 2016.

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 2016, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 8,548,398 thousand higher/(lower) (2015: MNT 10,153,422 thousand higher/(lower)).

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

	2016				2015			
In % p.a.	**MNT**	**USD**	**Euro**	**Other**	**MNT**	**USD**	**Euro**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	6.5%	-	-	-	5.0%	-	-	-
Due from other banks	8.0%	-	6.7%	-	1.6%	-	-	-
Loans and advances to customers	14.9%	11.8%	0.3%	9.4%	14.1%	12.4%	8.2%	11.1%
Short-term investment securities	14.2%	-	-	-				
Investment securities held to maturity	10.2%	-	-	-	12.2%	-	-	-
Liabilities								
Due to other banks	14.0%	6.0%	3.3%	5.9%	-	3.2%	6.7%	3.7%
Customer accounts								
- Current/settlement accounts	1.9%	0.9%	0.7%	0.0%	1.4%	0.8%	0.3%	-
- Demand deposits	8.1%	3.1%	1.9%	1.3%	6.4%	3.3%	1.9%	1.5%
- Time deposits	14.5%	6.9%	3.6%	3.0%	14.8%	8.1%	3.7%	3.3%
Reverse repurchase agreement	10.4%	-	-	-	14.9%	-	-	-
Other borrowed funds	4.4%	1.6%	2.1%	4.3%	7.9%	2.2%	1.4%	4.9%
Subordinated debt	-	8.0%	-	-	-	5.3%	-	-

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

Geographical risk concentration

The Group is exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2016 and 31 December 2015. A major part of the financial liabilities for 31 December 2016 and 31 December 2015 relates to Mongolia. The management believes that the Group's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentrations

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

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

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

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

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

Liquidity risk

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

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

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

	2016	**2015**
31st December	44.80%	38.06%
Average during the period	39.43%	31.92%
Highest	44.43%	38.06%
Lowest	30.33%	25.57%

The table below shows the assets and liabilities as at 31 December 2016 and 31 December 2015 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows. These undiscounted cash flows differ from the amounts recorded in the statement of financial position, which are based on discounted cash flows.

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2016 is as follows:

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

37 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2015 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)	158,124,287	-	-	-	-	**158,124,287**
Mandatory cash balances with the Bank of Mongolia	260,739,412	1,752,388	-	-	-	**262,491,800**
Financial assets at fair value through profit or loss	5,410,038	-	-	-	-	**5,410,038**
Due from other banks	349,203,676	30,761	-	-	-	**349,234,437**
Loans and advances to customers	389,804,501	518,892,703	480,262,195	754,237,082	234,492,343	**2,377,688,824**
Short-term investment securities	-	-	-	-	-	**-**
Investment securities available for sale	68,088,050	-	-	-	-	**68,088,050**
Investment securities held to maturity	429,446,068	11,347,717	102,147,865	35,865,138	148,253,545	**727,060,333**
Derivative financial instruments-asset	-	-	-	-	-	**-**
- inflows	60,135,749	71,527,567	-	191,421,130	-	**323,084,446**
- outflows	(57,002,050)	(63,927,221)	-	(161,948,161)	-	**(282,877,432)**
Repossessed financial assets	50,133,051	-	-	-	-	**50,133,051**
Other financial assets	8,634,629	24,864	-	-	-	**8,659,493**
Total Financial Asset	**1,722,717,411**	**539,648,779**	**582,410,060**	**819,575,189**	**382,745,888**	**4,047,097,327**
Liabilities						
Due to other banks	55,036,519	35,382,496	-	-	-	**90,419,015**
Customer accounts						
-Current Accounts	508,811,279	1,380,829	-	-	-	**510,192,108**
-Demand Savings	360,242,135	-	-	-	-	**360,242,135**
-Time Savings	200,752,516	573,650,053	393,611,202	102,221,358	-	**1,270,235,129**
Other borrowed funds	188,090,468	137,883,784	177,738,706	571,649,573	24,236,675	**1,099,599,206**
REPO arrangements	174,566,190	-	-	-	-	**174,566,190**
Subordinated debt	-	2,072,160	1,871,231	82,290,838	-	**86,234,229**
Other financial liabilities	4,832,919	2,431,067	1,437,822	85,595	-	**8,787,403**
Total Financial Liabilities	**1,492,332,026**	**752,800,389**	**574,658,961**	**756,247,364**	**24,236,675**	**3,600,275,415**
Credit related commitments	**287,667,049**	**-**	**-**	**-**	**-**	**287,667,049**
Guarantee and ILC	169,622,565	-	-	-	-	**169,622,565**
Credit Line undrawn	118,044,485	-	-	-	-	**118,044,485**
Net Gap	**(57,281,665)**	**(213,151,610)**	**7,751,099**	**63,327,825**	**358,509,213**	**159,154,862**
Accumulated Net Gap	**(57,281,665)**	**(270,433,275)**	**(262,682,176)**	**(199,354,351)**	**159,154,862**	**-**

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2016. The Group's exposure is not materially different from the Bank's exposure.

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

Liquidity risk (continued)

The maturity analysis of financial instruments of the Bank at 31 December 2015 is disclosed below. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	158,124,287	-	-	-	-	**158,124,287**
Mandatory cash balances with the bank of Mongolia	260,739,412	-	-	-	-	**260,739,412**
Financial assets at fair value through profit or loss	5,410,038	-	-	-	-	**5,410,038**
Due from other banks	349,203,676	30,329	-	-	-	**349,234,005**
Loans and advances to customers	383,069,690	485,457,181	424,091,880	570,577,173	150,414,863	**2,013,610,787**
Investment securities available for sale	68,088,050	-	-	-	-	**68,088,050**
Investment securities held to maturity	429,408,447	3,264,795	93,107,863	1,033,696	66,017,116	**592,831,917**
Derivative financial instruments-asset						
- inflows	60,135,749	71,527,567	-	191,421,130	-	**323,084,446**
- outflows	(57,002,050)	(63,927,221)	-	(161,948,161)	-	**(282,877,432)**
Repossessed financial assets	50,133,051	-	-	-	-	**50,133,051**
Other financial assets	8,634,629	24,864	-	-	-	**8,659,493**
Total Financial Assets	**1,715,944,979**	**496,377,515**	**517,199,743**	**601,083,838**	**216,431,979**	**3,547,038,054**
Liabilities						
Due to other banks	55,006,000	34,994,670	-	-	-	**90,000,670**
Customer Deposits						
-Current Accounts	508,811,279	1,380,829	-	-	-	**510,192,108**
-Demand Savings	360,242,135	-	-	-	-	**360,242,135**
-Time Savings	200,061,384	556,548,049	362,040,270	90,716,648	-	**1,209,366,351**
Other borrowed funds	183,801,010	132,953,923	153,115,272	522,165,623	22,899,127	**1,014,934,955**
REPO arrangements	174,280,920	-	-	-	-	**174,280,920**
Subordinated debt	-	-	-	70,060,229	-	**70,060,229**
Other financial liabilities	4,832,919	2,431,067	1,437,822	85,595	-	**8,787,403**
Total Financial Liabilities	**1,487,035,647**	**728,308,538**	**516,593,364**	**683,028,095**	**22,899,127**	**3,437,864,771**
Liquidity gap arising from financial instruments	**228,909,332**	**(231,931,023)**	**606,379**	**(81,944,257)**	**193,532,852**	**109,173,283**
Accumulated Net Gap	**228,909,332**	**(3,021,691)**	**(2,415,312)**	**(84,359,569)**	**109,173,283**	**-**

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

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

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

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

38 Management of Capital

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central BoM, 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% (2015:14%) capital adequacy ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chief Financial Officer of the Bank.

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

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

	31 December 2016	**31 December 2015**
Core capital ratio	10.19%	12.62%
Risk weighted capital ratio	14.77%	16.62%

In thousands of Mongolian Tugriks	**31 December 2016**	**31 December 2015**
Tier I capital		
Ordinary shares	26,367,593	26,367,593
Share premium	46,583,557	46,583,557
Retained earnings	240,438,730	247,534,836
Other components of equity	358,212	4,581,064
Less: Investment in financial institutions 75%	(9,163,369)	(7,704,517)
Total Tier I Capital	**304,584,723**	**317,362,533**
Tier II capital		
Subordinated loans	87,133,550	69,859,300
Preferred shares	25,778,900	25,778,900
Revaluation fund	9,644,867	7,476,100
Other reserves	17,401,574	-
Less: Investment in financial institutions 25%	(3,054,456)	(2,568,172)
Total Tier II Capital	136,904,435	100,546,128
Total capital/capital base	441,489,158	417,908,661

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

39 Contingencies and Commitments

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

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

As of 31 December 2016, there are no litigations filed against commercial banks in the Supreme Court by the Authority for Fair Competition and Consumer Protection. Based on the assessment of the Bank's legal advisors, management believes that there is no further possibility of this government institution raising the claim against commercial banks and concluded that no provision is necessary in the statement of financial position.

Tax legislation. Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislate 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 reassessment 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 ing leases, but annual operating leases and long-term land leases, which can be cancelled under relatively short notice. Thus, management believes that the amount of the future minimum lease payments under non-cancellable operating leases is not material.

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 24, there were no breaches of covenants that would require immediate repayment of the borrowings as of 31 December 2016.

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

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

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

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Financial guarantees issued	80,711,003	77,016,536
Performance guarantees issued	76,038,947	79,058,179
Letters of credit	26,119,570	13,547,849
Undrawn credit lines and credit cards	138,753,364	118,044,485
Less: provision for credit related commitments	(793,072)	-
Total credit related commitments	**320,829,812**	**287,667,049**

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

As of 31 December 2016, management concluded that provision for credit related commitments in the amount of MNT 793,072 thousand is necessary, based on all available information using its best estimate of losses incurred and the probability of their occurrence after analysing financial conditions of the Bank's customers. The Bank has not recognized provision on credit related commitments as of 31 December 2015, as the management was not aware of any losses incurred due to the deterioration of the financial conditions of the customers.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 315,633,095 thousand as of 31 December 2016 (31 December 2015: MNT 260,739,412 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

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

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

40 Derivative Financial Instruments

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

Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	177,021,621	40,259,235
- Financial liabilities at fair value through profit or loss	-	(52,221)
Foreign exchange forwards and swaps, net fair value	**177,021,621**	**40,207,014**

40 Derivative Financial Instruments (continued)

In thousands of Mongolian Tugriks	31 December 2016	31 December 2015
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	517,670,452	323,084,446
- USD payable on settlement (-)	-	-
- MNT receivable on settlement (+)	-	-
- MNT payable on settlement (-)	(340,648,831)	(282,877,432)
- Other currencies receivable on settlement (+)	-	-
- Other currencies receivable on settlement (-)	-	-
Net fair value of foreign exchange forwards and swaps	**177,021,621**	**40,207,014**

Derivative financial instruments in amount of MNT 177,021,621 thousand are related to unrealized gain from long-term and short-term swaps and are classified as financial assets held for trading.

Financial assets of MNT 142,724,280 thousand relate to two separate long-term forward foreign currency exchange contracts: a long term swap with the Bank of Mongolia entered on 30 December 2015 maturing on 22 June 2017 and another long term swap with the same party entered on 19 July 2016 maturing on 9 July 2018. This unrealized gain of MNT 114,251,311 thousand (2015: MNT 29,472,969) relates to day 1 gain on initial recognition of abovementioned long-term swaps due to favorable terms offered by the Bank of Mongolia in the amount of MNT 28,731,368 thousand (2015: MNT 29,472,969 thousand) and fair value increase during the period of MNT 85,519,943 thousand (2015: Nil). Remaining amount of gains relates to short-term swaps.

41 Fair Value Disclosures

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

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

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:

	2016				2015			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Financial assets at fair value through profit or loss	395,422,594	-	-	**395,422,594**	5,410,038	-	-	**5,410,038**
Investment securities available for sale	56,620,658	-	69,545,270	**126,165,928**	530,073	-	67,557,942	**68,088,015**
Repossessed collateral	-	-	44,660,926	**44,660,926**	-	-	50,133,051	**50,133,051**
Other financial assets								
Financial derivatives	-	177,021,621	-	**177,021,621**	-	40,207,014	-	**40,207,014**
Non-financial assets								
Premises	-	-	145,025,692	**145,025,692**	-	-	145,418,730	**145,418,730**
Investment properties	-	-	51,291,334	**51,291,334**	-	-	1,209,050	**1,209,050**
Non-Current Assets Classified as Held for Sale	-	-	17,444,424	**17,444,424**	-	-	-	-
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**452,043,252**	**177,021,621**	**327,967,646**	**957,032,519**	**5,940,111**	**40,207,014**	**264,318,773**	**310,465,898**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016 and 31 December 2015:

In thousands of Mongolian Tugriks	**2016 Fair value**	**2015 Fair value**	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	177,021,621	40,207,014	Interest rate parity analysis	Inter-bank rates of each currency
Total recurring fair value measurements at level 2	**177,021,621**	**40,207,014**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

Financial assets

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

Investment securities available for sale, which are classified as level 3 for fair value measurement purposes, mostly relate to the Bank's investment in the investment units of the first investment fund established in Mongolia in the amount of MNT 58,000,000 thousand (refer to the Notes 3 and 14) apart from investment in MIK in amount of MNT 11,017,825 thousand (2015: MNT 9,072,689 thousand) which is disclosed in the table above. As this investment was made at the price available to other third-parties and there were no substantial changes in the Fund's operations since the purchase, management believes that this investment was purchased at market price and that the fair value of this investment as of 31 December 2016 and 31 December 2015 approximates its carrying value. For management's judgments on investment in this fund, refer to Note 3. Management believes that the fair value of remaining unquoted investments in available for sale investment securities is unlikely to be materially different from their carrying value as of 31 December 2016 and that current disclosures are sufficient from the perspective of the users of financial statements.

Investment in MIK were fair valued at the end of the reporting period using discounted cash flows at the weighted average cost of capital of the Bank.

If the market price of available for sale investment securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 6,954,527 thousand (2015: MNT 6,755,794 thousand).

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

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 4,466,093 thousand (2015: MNT 5,013,305 thousand).

Non-financial assets at 31 December 2016:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value Non-financial assets						
Premises	145,025,692	Market value	Discounted cash flow	Comparable market data	10%	14,502,569
Investment properties	51,291,334	Market value	Discounted cash flow	Comparable market data	10%	5,129,133
Non-Current Assets Classified as Held for Sale	17,444,424	Market value	Discounted cash flow	Comparable market data	10%	1,744,442
Total recurring fair value measurements at level 3	**213,761,450**					**21,376,144**

Non-financial assets at 31 December 2015:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value Non-financial assets						
Premises	145,418,730	Market value	Discounted cash flow	Comparable market data	10%	14,541,873
Investment properties	1,209,050	Market value	Discounted cash flow	Comparable market data	10%	120,905
Total recurring fair value measurements at level 3	**146,627,780**					**14,662,778**

There were no changes in valuation technique for level 3 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

There were no movements in and out of the categories during the years ended 31 December 2016 and 31 December 2015.

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

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

(c) 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 2016 are as follows:

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

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

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2015 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)	**91,801,376**	**66,322,911**	**-**	**158,124,287**
Cash on hand	91,801,376	-	-	91,801,376
Current account with the central bank	-	66,322,911	-	66,322,911
Mandatory cash balances with the Bank of Mongolia	**-**	**260,739,412**	**-**	**260,739,412**
Due from other banks	**-**	**349,234,005**	**-**	**349,234,005**
Correspondent accounts with other banks				
Domestic	-	14,294,479	-	14,294,479
Foreign	-	334,909,196	-	334,909,196
Short-term placements with other banks				
Placements with other banks with original maturities of more than three months	-	30,329	-	30,329
Loans and advances to customers	-	-	1,979,972,739	2,013,610,787
Corporate loans	-	-	1,136,562,985	1,145,626,274
Loans to small and medium business	-	-	458,562,241	435,364,614
Consumer loans to individuals	-	-	186,970,856	188,612,514
Mortgage loans to individuals	-	-	197,876,657	244,007,385
Investment securities held to maturity	**-**	**592,831,917**	**-**	**592,831,917**
Other financial assets	**-**	**8,659,492**	**-**	**8,659,492**
Total financial assets carried at amortized cost	**91,801,376**	**1,277,787,736**	**1,979,972,739**	**3,383,199,900**

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

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

41 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2015 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**90,000,670**	**-**	**90,000,670**
Short-term placements of other banks	-	82,002,849	-	82,002,849
Long-term placement of other banks	-	7,997,821	-	7,997,821
REPO Agreements	**-**	**174,280,920**	**-**	**174,280,920**
Sale and repurchase agreements with other banks	-	174,280,920	-	174,280,920
Customer Accounts				
State and public organisations	**-**	**162,535,506**	**-**	**168,050,747**
- Current/settlement accounts	-	67,034,331	-	67,034,331
- Demand deposits	-	42,350,036	-	42,350,036
- Term deposits	-	53,151,139		58,666,381
Legal entities	**-**	**521,211,600**	**-**	**523,711,258**
- Current/settlement accounts	-	354,736,353	-	354,736,353
- Demand deposits	-	25,944,869	-	25,944,869
- Term deposits	-	140,530,378	-	143,030,036
Individuals	**-**	**1,378,151,120**	**-**	**1,366,508,836**
- Current/demand accounts	-	77,921,381	-	77,921,381
- Demand deposits	-	290,801,245	-	290,801,245
- Term deposits	-	1,009,428,494	-	997,786,210
Other	**-**	**21,349,103**	**-**	**21,529,752**
- Current/demand accounts	-	10,500,043	-	10,500,043
- Demand deposits	-	1,145,985	-	1,145,985
- Term deposits	-	9,703,075	-	9,883,724
Other borrowed funds	**-**	**1,014,934,955**	**-**	**1,014,934,955**
Subordinated debt	**-**	**70,060,229**	**-**	**70,060,229**
Other financial liabilities	**-**	**9,083,242**	**-**	**9,083,242**
Total financial liabilities carried at amortized cost	**-**	**3,441,607,345**	**-**	**3,438,160,609**

42 Presentation of Financial Instruments by Measurement Category

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

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

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

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

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2015:

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)	**158,124,287**	**-**	**-**	**-**	**-**	**158,124,287**
Cash on hand	91,801,376	-	-	-	-	91,801,376
Current account with the central bank	66,322,911	-	-	-	-	66,322,911
Mandatory cash balances with the Bank of Mongolia	**260,739,412**	**-**	**-**	**-**	**-**	**260,739,412**
Financial assets at fair value through profit or loss	**-**	**-**	**5,410,038**	**-**	**-**	**5,410,038**
Due from other banks	**349,234,005**	**-**	**-**	**-**	**-**	**349,234,005**
Correspondent accounts with other banks						
Domestic	14,294,479	-	-	-	-	14,294,479
Foreign	334,909,197	-	-	-	-	334,909,197
Short-term placements with other banks						
Placements with other banks with maturities of more than three months	30,329	-	-	-	-	30,329
Loans and advances to customers	**2,013,610,787**	**-**	**-**	**-**	**-**	**2,013,610,787**
Corporate loans	1,145,626,274	-	-	-	-	1,145,626,274
Loans to small and medium business	435,364,614	-	-	-	-	435,364,614
Consumer loans to individuals	188,612,514	-	-	-	-	188,612,514
Mortgage loans to individuals	244,007,385	-	-	-	-	244,007,385
Investment securities available for sale	**-**	**68,088,050**	**-**	**-**	**-**	**68,088,050**
Investment securities held to maturity	**489,356,262**	**-**	**-**	**-**	**103,475,655**	**592,831,917**
Derivative financial instruments	**-**	**-**	**-**	**40,207,014**	**-**	**40,207,014**
Repossessed financial asset	**-**	**50,133,051**	**-**	**-**	**-**	**50,133,051**
Other financial assets:	**8,659,493**	**-**	**-**	**-**	**-**	**8,659,493**
Receivables on cash and settlements services	1,056,063	-	-	-	-	1,056,063
Receivable from individuals	260,314	-	-	-	-	260,314
Receivable from companies	958,841	-	-	-	-	958,841
Other	6,384,275	-	-	-	-	6,384,275
Total Financial Assets	**3,279,724,246**	**118,221,101**	**5,410,038**	**40,207,014**	**103,475,655**	**3,547,038,054**

As of 31 December 2016 and 31 December 2015, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

43 Related Party Transactions

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

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

Related party categories are as follows:

Golomt Financial Group LLC	Main shareholder of the Bank
Bodi International LLC	Previous main shareholder of the Bank prior to the transfer of the Bank to Golomt Financial Group. Following the transfer it remains related party as it has the same major shareholder as Golomt Financial Group.
Other	Subsidiaries of Bodi International LLC and Golomt Financial Group
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 2016 and 31 December 2015, refer to Note 1.

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 22.8%)	1,866,168	20,015,982	-	-	66,305,617	**88,187,767**
Investment in subsidiaries	-	-	-	1,200,000	-	**1,200,000**
Derivative financial instrument (notional amount: MNT 87,133,550)	-	-	25,480,221	-	-	**25,480,221**
Customer accounts (contractual interest rate 0% - 15.2%)	1,115,313	183,649	654,545	1,231,029	602,715	**3,787,251**
Subordinated debts (contractual interest rate 6%)	-	-	87,133,550	-	-	**87,133,550**

At 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 23.4%)	3,598,719	-	-	-	71,798,457	**75,397,176**
Investment in subsidiaries	-	-	-	1,200,000	-	**1,200,000**
Derivative financial instrument (notional amount: MNT 69,859,300)	-	-	9,437,804	-	-	**9,437,804**
Customer accounts (contractual interest rate 0% - 15.6%)	826,292	3,013	280,795	34,977	873,716	**2,018,793**
Subordinated debts (contractual interest rate 6% - 6.5%)	-	-	70,060,229	-	-	**70,060,229**

43 Related Party Transactions (continued)

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**6%-23.4%**	**4.5%-22.8%**	**N/A**	**N/A**	**10%-22.8%**	
Loans to customers						
Loans to customers as at 1 January (gross)	3,598,719	11,349,600	-	-	60,448,857	**75,397,176**
Loans to customers issued during the year	1,429,881	100,360,233	-	-	53,344,487	**155,134,601**
Loans to customers repaid during the year	(3,162,432)	(91,682,766)	-	-	(55,554,961)	**(150,400,159)**
Exchange difference	-	(11,085)	-	-	8,067,234	8,056,149
Loans to customers as at 31 December (gross)	**1,866,168**	**20,015,982**	**-**	**-**	**66,305,617**	**88,187,767**

Movement in the loans and advances to related party at 31 December 2015 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Loans to customers						
Loans to customers as at 1 January (gross)	2,052,916	18,070,000	-	-	75,893,677	96,016,593
Loans to customers issued during the year	3,214,266	5,102,346	-	-	57,526,456	65,843,068
Loans to customers repaid during the year	(1,674,499)	(23,161,324)	-	-	(63,255,535)	**(88,091,358)**
Exchange difference	6,036	(11,022)	-	-	1,633,858	**1,628,872**
Loans to customers as at 31 December (gross)	**3,598,719**	**-**	**-**	**-**	**71,798,456**	**75,397,175**

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 31 December 2016 and 31 December 2015, as management believes that such provision is not necessary.

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

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**0%-15.2%**	**0%-13.8%**	**0%-1.2%**	**0%**	**0%-15.6%**	
Customer accounts						
Customer accounts as at 01 January 2016	826,292	3,013	280,795	34,978	873,716	**2,018,794**
Customer accounts received during the year	9,816,321	209,677,086	25,043,709	16,403,948	395,897,249	**656,838,313**
Customer accounts repaid during the year	(9,686,938)	(209,574,082)	(24,860,689)	(15,249,014)	(396,191,507)	**(655,562,230)**
Exchange difference	159,638	77,633	190,731	41,118	23,256	492,376
Customer accounts as at 31 December 2016	**1,115,313**	**183,650**	**654,546**	**1,231,030**	**602,714**	**3,787,253**

The customer accounts balances at the year end and transactions with related parties for 2015 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**0%-15.2%**	**0%-13.8%**	**0%-1.2%**	**0%**	**0%-15.6%**	
Customer accounts						
Customer accounts as at 01 January 2015	1,556,442	67,382,415	493,217	186,299	1,891,620	**71,509,993**
Customer accounts received during the year	13,024,410	528,936,738	77,600,264	38,779,881	409,363,005	**1,067,704,298**
Customer accounts repaid during the year	(13,829,428)	(596,973,715)	(77,859,568)	(38,928,161)	(410,485,086)	**(1,138,075,958)**
Exchange difference	74,868	657,575	46,882	(3,041)	104,177	**880,461**
Customer accounts as at 31 December 2015	**826,292**	**3,013**	**280,795**	**34,978**	**873,716**	**2,018,794**

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	123,940	45,256	-	-	9,101,011	**9,270,207**
Interest expense	95,889	2	6,088,249	1,069	33,262	**6,218,471**
Fee and commission income	5,816	396	413	3,534	14,643	**24,802**

The income and expense items with related parties for the year ended 31 December 2015 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	140,377	1,541,461	-	-	8,782,705	**10,464,543**
Interest expense	65,594	4,089,810	3,550,150	1,634	140,594	**7,847,782**
Fee and commission income	1,785	3,412	242	886	25,267	**31,592**

43 Related Party Transactions (continued)

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	123,940	45,256	-	-	9,101,011	**9,270,207**
Interest expense	95,889	2	6,088,249	1,069	33,262	**6,218,471**
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Interest income	140,377	1,541,461	-	-	8,782,705	**10,464,543**
Interest expense	65,594	4,089,810	3,550,150	1,634	140,594	**7,847,782**
Fee and commission income	1,785	3,412	242	886	25,267	**31,592**

Capital purchases made between related parties for the year ended 31 December 2016 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Buildings	-	-	-	-	-	**-**

Capital purchases made between related parties for the year ended 31 December 2015 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Buildings	-	61,095,216	-	-	24,266,844	**85,362,060**

Cost of services received as of the year ended 31 December 2016 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Construction in progress	-	-	-	-	3,000,000	**3,000,000**

Cost of services received as of the year ended 31 December 2015 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Construction in progress	-	-	-	-	9,853,572	**9,853,572**

The outstanding balance of the guarantee issued for related party at the year end is as follows:

In thousands of Mongolian Tugriks	2016	2015
Guarantee		
Bank guarantees as at 01 January	21,065	-
Guarantees issued / exchange revaluation	11,000	21,065
Guarantee closed	(18,941)	-
Bank guarantees as at 31 December	**13,124**	**21,065**

Key Board of Directors and management compensation is presented below:

In thousands of Mongolian Tugriks	2016	2015
Salaries	1,738,758	1,777,147
Bonuses	104,870	105,610
Social security contributions	202,799	197,668
TOTAL	**2,046,427**	**2,080,424**

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.

44 Share-Based payments

The Bank has not recognized any expense for employee services received for the year ended 31 December 2016 and 31 December 2015 in relation to share-based payment.

	2016		2015	
In thousands of Mongolian Tugriks	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	-	-	285,250	5,701
Granted during the year	-	-	-	-
Expired during the year	-	-	(134,750)	5,702
Exercised during the year	-	-	(150,500)	5,702
Outstanding at the end of the year	**-**	**-**	**-**	**-**

Share-based payments comprise the fair value of options and performance share rights recognised as an expense. Upon exercise of options or performance share rights, any proceeds received are credited to share capital and share premium.

45 Events after the End of the Reporting Period

Borrowing from international financial institutions. On 1 February 2017, the Bank sold MNT 23.9 billion and MNT 16.6 billion of the 8% mortgage loans to MIK SPC10 and MIK SPC11 respectively.

Operating environment of the Bank. The Mongolian government and International Monetary Fund team reached agreement on an economic and financial program to be supported by a three-year Extended Fund Facility for about USD 440 million. The government's economic program intends to restore economic stability and debt sustainability, and will facilitate strong, sustainable and inclusive growth, while protecting the most vulnerable. Management is not aware of other events that occurred after the end of the reporting period until 22 March 2017, which would have any impact on these financial statements.